



**REPUBLIC OF NORTH MACEDONIA
GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA**

2025 - 2029 FISCAL STRATEGY OF THE REPUBLIC OF NORTH MACEDONIA

Skopje, September 2024

Summary of 2025 – 2029 Fiscal Strategy of the Republic of North Macedonia

Pursuant to the Organic Budget Law, Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections.

Fiscal policy to be pursued in the period 2025 - 2029 will be aimed at enhancing macroeconomic stability and supporting economic activity through gradual fiscal consolidation, improving public finance management and maintaining high level of capital expenditures. Fiscal consolidation measures will be undertaken for the sake of attaining a moderate level of borrowing.

Key elements of the fiscal policy will comprise disciplined fiscal policy, reduced grey economy and higher budget revenue collection, as well as fiscal consolidation.

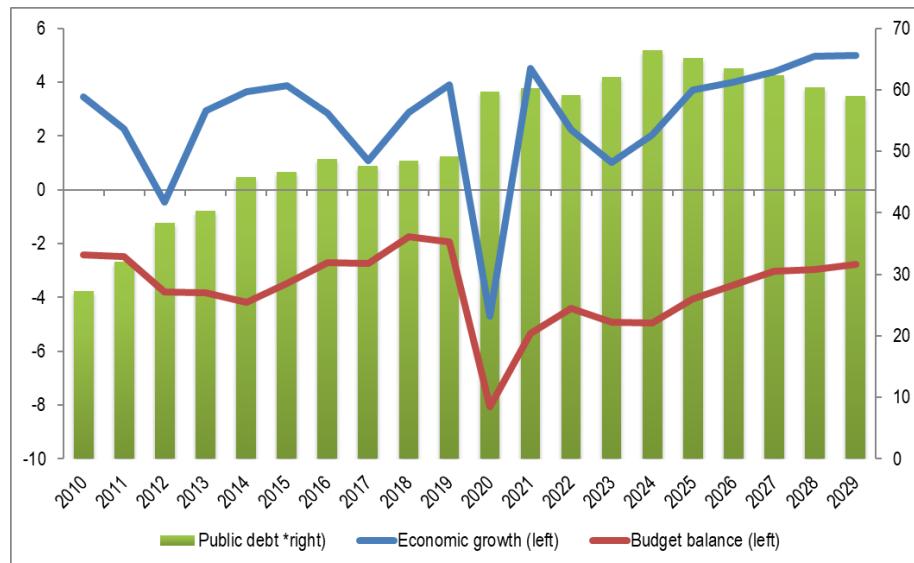
In addition to the commitment to fiscal consolidation and budget savings, economy will continue to be supported by investing in infrastructure projects, redesigning the public finance structure by maintaining high level of capital expenditures, and strengthening both the transparency and the accountability.

In the period 2025 - 2029, tax policy will be based on reducing grey economy and higher budget revenue collection. In fact, the objective is to reduce grey economy through increased digitalisation and establish an efficient tax system, all to the end of ensuring that everyone pays its fair share of tax in a just manner. It will allow for keeping the low tax rates at the other taxes, at the same time contributing to higher amounts for capital investments accounting for around 5% of GDP, tax exemptions, subsidies intended for supporting the private sector and the citizens.

Public debt management policy will be aimed at ensuring the funds necessary to finance the budget deficit and repay the due liabilities on the basis of prior borrowings, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

Budget deficit is reduced as a percentage share of GDP, as follows: 4.9% in 2024, 4% in 2025, 3.5% in 2026, 3% in 2027, 3% in 2028 and 2.8% in 2029. Primary budget deficit will accordingly decline gradually, as follows: 3% of GDP in 2024, 2.1% in 2025, 1.5% in 2026, 0.9% in 2027, 0.9% in 2028 and 0.6% in 2029.

Chart: Trends of Economic Growth, Budget Deficit and Public Debt



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Pursuant to paragraph 5, Article 17 of the Organic Budget Law (“Official Gazette of the Republic of North Macedonia”, nos. 203/22, 59/23, 277/23, 39/24 and 76/24), Government of the Republic of North Macedonia, at its session held on ____ September 2024, adopted the 2025 – 2029 Fiscal Strategy of the Republic of North Macedonia.

Introduction

Fiscal Strategy is a document of the Government of the Republic of North Macedonia, presenting the assumptions for macroeconomic forecasts and the guidelines of the fiscal policy for the current and the next five years. This Fiscal Strategy has been prepared on the basis of the 2024-2028 Fiscal Policy Statement, which the Government adopted in September 2024 pursuant to the Article 12 of the Organic Budget Law. Ministry of Finance prepares the Fiscal Strategy and submits it to the Government of the Republic of North Macedonia, taking into account the guidelines set in the 2024-2028 Fiscal Policy Statement, the strategic priorities of the Government and the proposals of the parent budget users.

Fiscal policy to be pursued in the period 2025 - 2029 will be aimed at restoring macroeconomic stability and supporting economic activity through gradual fiscal consolidation, improving public finance management and maintaining high level of capital expenditures. Fiscal consolidation measures will be undertaken for the sake of attaining a moderate level of borrowing.

Key elements of the fiscal policy throughout the term of office of the Government of the Republic of North Macedonia will comprise disciplined fiscal policy, reduced grey economy and higher collection of revenues in the State Budget, as well as fiscal consolidation.

In addition to the commitment to fiscal consolidation and budget savings, economy will continue to be supported by investing in infrastructure projects, redesigning the public finance structure by maintaining high level of capital expenditures, and strengthening both the transparency and the accountability.

In the period 2025 - 2029, tax policy will be based on reducing grey economy and higher budget revenue collection. In fact, the objective is to reduce grey economy through increased digitalisation and establish an efficient tax system, all to the end of ensuring that everyone pays its fair share of tax in a just manner. It will allow for keeping the low tax rates at the other taxes, at the same time contributing to higher amounts for capital investments accounting for around 5% of GDP, tax exemptions, subsidies intended for supporting the private sector and the citizens.

Public debt management policy will be aimed at ensuring the funds necessary to finance the budget deficit and repay the due liabilities on the basis of prior borrowings, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

1. Macroeconomic Trends and Forecasts

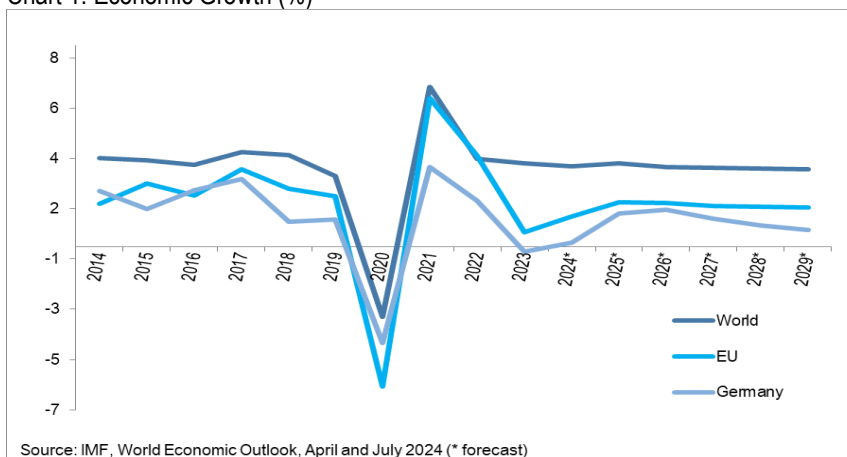
Macroeconomic scenario in the 2025 - 2029 Fiscal Strategy is based on the macroeconomic forecasts of the Ministry of Finance as of September 2024. Chapter 6 presents the comparison with other forecasts. Growth of the Macedonian economy in 2024 is expected to be 2.1%, accelerating to 3.7% in 2025, 4.0% in 2026, with average growth of 4.8% in the period 2027 - 2029. Economic growth is expected to be driven by gross investments and private consumption. In 2024, inflation is expected to be reduced to 3.5%, stabilizing to around 2% in the coming medium-term period. As regards the labour market, economic growth is expected to contribute to increased employment rate, as well as reduced unemployment.

1.1 International Economic Trends and Forecasts¹

At the beginning of 2024, global economy showed resilience, underpinned by the strong private consumption in the major economies, with a stable growth, while inflation gradually declined. Services inflation is holding up progress on disinflation, which is complicating monetary policy normalisation. On the other hand, normalisation of the labour markets and the expected decline of energy prices are expected to stabilise inflation. Still, despite the turbulent period, the world avoided a recession, the banking system proved largely resilient, and the major emerging market economies did not suffer substantial shocks, although the pace of economic expansion is low by historic standards.

Global growth is projected to be in line with the July forecast, at 3.2% in 2024 and 3.3% in 2025, with 2024 growth projection remaining unchanged from that in April 2024, with upward revision by 0.1 p.p. for 2025. Global activity and world trade firmed up at the end of 2023, with trade spurred by strong exports from Asia, particularly in the technology sector. Relative to the April 2024 WEO, first quarter growth surprised on the upside in many countries, whereby economic activity in Europe recovered led by an improvement in services activity, while as regards China, resurgent domestic consumption propelled the positive upside, aided by temporary surge in exports reconnecting with last year's rise in global demand. On the other hand, sharper-than-expected slowdown in growth was notable in Japan and the United States.

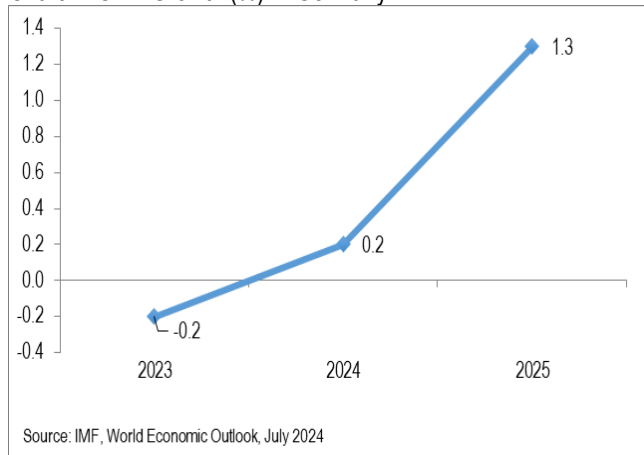
Chart 1: Economic Growth (%)



For **advanced economies**, growth is projected to reach 1.7% in 2024 and 1.8% in 2025, remaining unchanged relative to the April 2024 WEO. In the coming quarters, growth in the advanced economies is expected to draw closer. Growth in the euro area is projected to pick up from 0.5% in 2023 to 0.9% in 2024 (an upward revision of 0.1 percentage point relative to the April 2024 WEO), driven by stronger momentum in services and higher-than-expected net exports in the first half of the year. Growth is projected to rise to 1.5% in 2025 as a result of stronger consumption on the back of rising real wages, as well as higher investment amid gradual monetary policy loosening in 2024.

¹ Analysis of this part is based upon the International Monetary Fund Report "World Economic Outlook", published in April and June 2024.

Chart 2. GDP Growth (%) in Germany

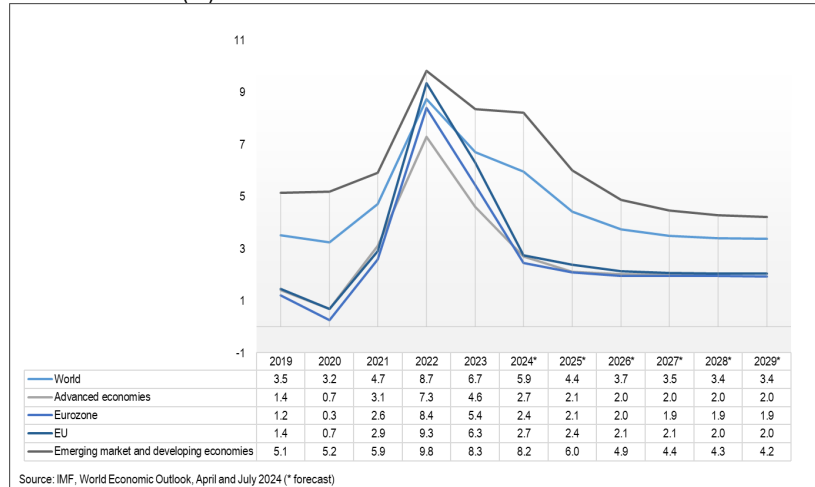


Continued weaknesses in manufacturing suggest a more sluggish recovery in countries such as Germany. In 2024, **Germany's** economy will grow by 0.2%, accelerating to 1.3% in 2025 (forecasts on Germany remain unchanged from that in April). In the **United States**, projected growth is revised downward to 2.6 percent in 2024 (0.1 percentage point lower than projected in April), reflecting the slower-than-expected start to the year. Growth is expected to slow to 1.9 percent in 2025 as the labor market cools and consumption moderates, with fiscal policy starting to tighten gradually.

The forecast for growth in **emerging market and developing economies** is revised upward by 0.1 p.p. in 2024 and 2025 each, i.e. 4.3%. The projected increase is powered by stronger activity in Asia, particularly China and India. Growth forecast for **China** is revised upward to 5.0% in 2024 (0.4 p.p. higher than in April), primarily on account of a rebound in private consumption and strong exports in the first quarter. In 2025, GDP is projected to slow to 4.5 percent, and to continue to decelerate over the medium term to 3.3 percent by 2029, because of headwinds from aging and slowing productivity growth.

The momentum on **global disinflation** is slowing, signaling bumps along the path. This reflects different sectoral dynamics and inflation in services prices, tempered to some extent by stronger disinflation in the prices of goods. Nominal wage growth remains brisk, above price inflation in some countries, partly reflecting the outcome of wage negotiations earlier this year and short-term inflation expectations that remain above target.

Chart 3. Inflation (%)

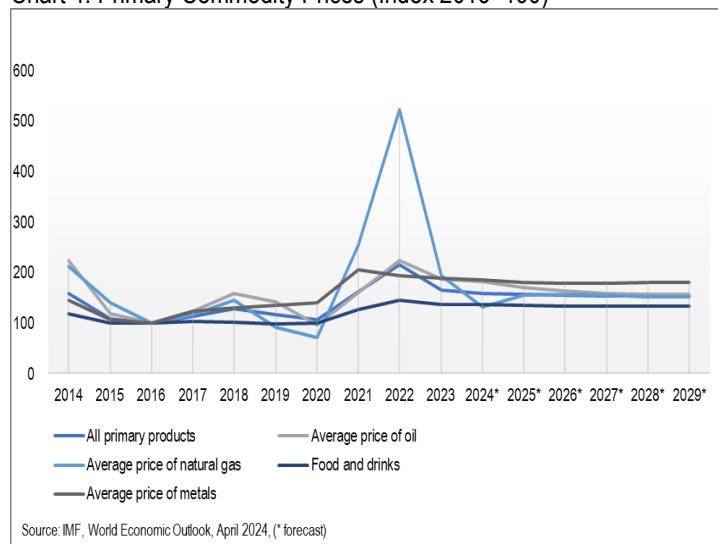


Global inflation will continue to decline to 5.9% in 2024 and 4.5% in 2025. Slower pace of disinflation is expected in the advanced economies as a result of inflation in prices for services and expectations for higher commodity prices. However, the gradual cooling of labor markets, together with an expected decline in energy prices, should bring headline inflation back to target of 2% by the end of 2025. Inflation is expected to remain higher in emerging market and developing economies (and to drop more slowly) than in advanced economies, although 2024 and 2025 forecasts are revised downward by 0.1 p.p. and 0.2 p.p. each.

Persistently elevated uncertainty around the inflation outlook has led central banks to become somewhat more cautious about the pace of policy easing. Inflation in the euro area and Canada is cooling more in line with expectations, allowing for gradual easing of the monetary policy, unlike the United States, where the easing cycle is slowed down by the upward trend of inflation in the first months of 2024. Policy rate cuts to be delivered in 2024 were revised downward in July 2024 WEO².

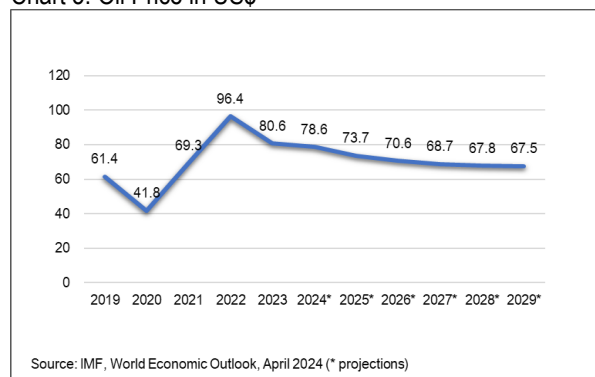
Primary commodity prices declined slightly in the second half of 2023 and the beginning of 2024, driven by a decrease in oil price. Oil supply growth in the USA, as well as weaker expectations for global supply growth, balanced and buffered the impact of geopolitical tensions in the Middle East, hence oil prices dropped by 16.4% in 2023.

Chart 4. Primary Commodity Prices (Index 2016=100)



Crude oil price is expected to drop in the coming period, from US\$ 80.6 per barrel in 2023 to US\$ 78.6 per barrel in 2024, and will continue falling to US\$ 67.50 in 2029. Risks to this outlook are broadly balanced. Natural gas prices are expected to continue to decline amid ample supplies.

Chart 5. Oil Price in US\$



² European Central Bank and US Federal Reserves lowered their interest rates in September to 3.5% (down from 3.75%) and 4.8% (down from 5.3%) respectively.

Metal prices rebounded. Iron ore prices increased due to record steel production in China, with uranium prices rising due to supply disruptions from major producers. However, prices of basic metals and iron are expected to drop in the period to come on account of weaker industrial activity in Europe and China. Gold prices went up, supported by the demand.

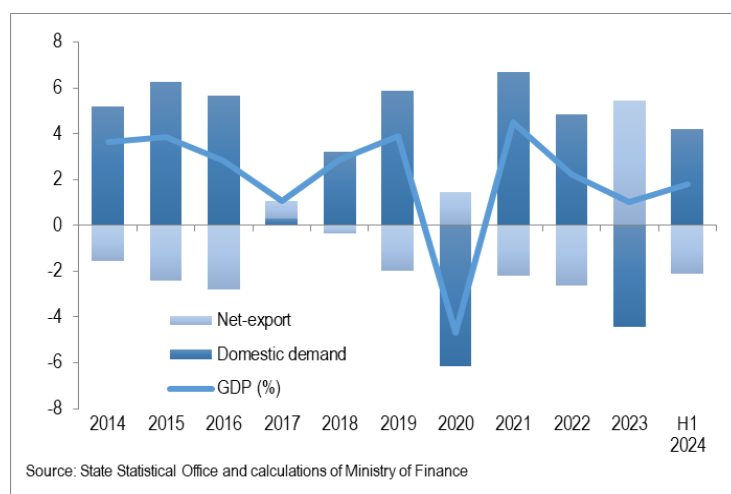
Food and beverage prices increased, driven by the impact of El Niño on tropical crops, including cocoa and coffee, however, they are expected to decline driven by the global supplies for wheat and maize, followed by their stabilisation.

Risks to the global growth outlook are balanced, except for certain short-term risks. Short-term risks related to inflation stem from both the continuous price spikes in the services sector and the price pressures, arising, on the other hand, from deterioration of the trade relations or geopolitical tensions. Escalation of trade tensions could additionally heighten the short-term risks to inflation by increasing the prices of imported goods in the supply chains. Risk of higher inflation increases the possibility for higher interest rates on the long run, leading to heightened external, fiscal and financial risks. In addition, risks also stem from the dollar appreciation which could deteriorate the capital flow and hinder the planned monetary policy easing, as well as the expectations for substantial changes in the economic policy as a result of this year's US elections and the trade tariffs which, coupled with the encouraging industrial policies worldwide, could generate damaging cross-border spillovers.

1.2 Recent Economic Developments

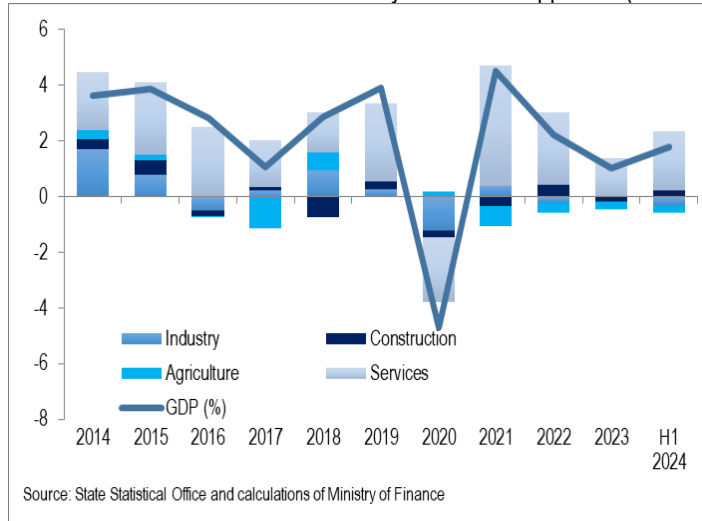
Economic activity in Q2 2024 accelerated, recording real growth of 2.3% on annual basis, following the growth of 1.2% in the previous quarter which accounted for economic growth of 1.8% in the first half of the year. Economic growth was a result of the increased domestic demand, amid scaled-up gross investments and consumption, while net export had a negative contribution to growth. Gross investments surged by 9.2% in real terms in the first half of the year, mainly as a result of the increased investments in fixed assets (higher import of capital goods by 24.5% and machinery and equipment by 14.1%) and decreased inventories (decline of import of intermediary goods by 6.8%). Consumption surged by 1.9% in real terms. Thereby, private consumption surged by 1.7%, mostly as a result of the growth of the household disposable income amid increase of employment, wages and pensions in the economy, also underpinned by the crediting to households. Public consumption grew by 2.9% in real terms. Decreased external demand also resulted in drop of foreign trade, whereby both export and import of goods and services decreased simultaneously by 5.4% and 2.2% respectively in real terms in the first half of the year.

Chart 6. Economic Growth by Expenditure Approach (contribution to growth, p.p.)



Analyzed by sectors, main driving force of growth in the first half of 2023 was the services sector, supported by construction activity. Activity in the services sector picked up by 2.8%, with the activities Trade, transport and hospitality industry contributing the most to the growth (6.3% growth). Arts, entertainment and recreation and Professional, scientific and technical activity also registered significant growth of 14.4% and 8.1% respectively. Construction activity surged by 1.4% in real terms. Decline was registered in the industrial and the agriculture sectors of 1.7% and 10.7% respectively.

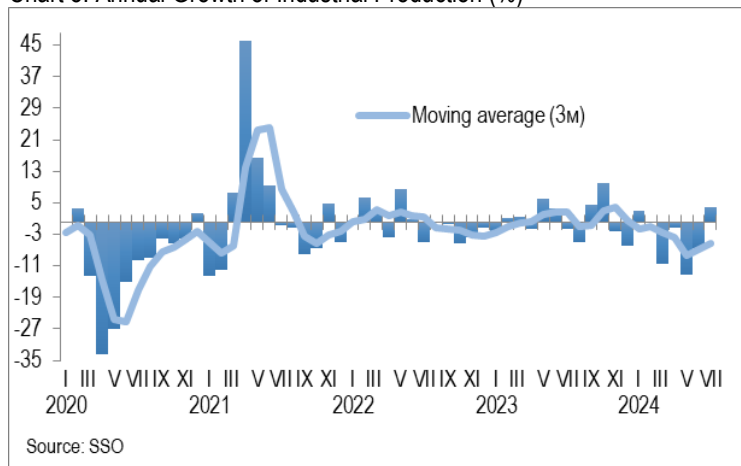
Chart 7. Economic Growth Structure by Production Approach (contribution to growth, p.p.)



According to **high-frequency data**, following its two-digit drop in March and May, industrial production registered 3.8% growth amid increased activity in Manufacturing of 3.8% and Mining of 14.9% on annual basis. Still, on cumulative basis, industrial production decreased by 3.9% in the first seven months of 2024, amid declined activity registered at all sectors. Retail trade recorded growth of 1.9% in real terms. Number of issued building permits, as well as the total expected value of construction works in the period January - July 2024, decreased compared to the same period previous year, with issued building permits and value of construction works strongly indicating construction sector recovery in June, following the period of decreased activity. Export of goods declined by 7.7%, with import of goods registering an increase of 0.2%. Export decline was mainly due to reduced export of chemical materials and products, road vehicles and electricity, while import decrease was mostly a result of declined import of industrial and natural gas, non-organic chemical products and non-ferrous metals.

Considering the performance in the first half of the year, as well as the weak international environment, above all at the key trading partners, GDP growth projection of 2.1% in 2024 remains unchanged in relation to the period when 2024 Supplementary Budget was prepared, whereby positive trends are expected to continue by the end of the year. Domestic demand, i.e. private consumption (2.5% growth) and recovery of gross investments (9.8% growth) are expected to be drivers of the economic activity. Export of goods and services is expected to recover by the end of the year following the high drop in the first half of the year, registering a moderate decline (-0.6%), while import is expected to surge (by 2.5%) in real terms.

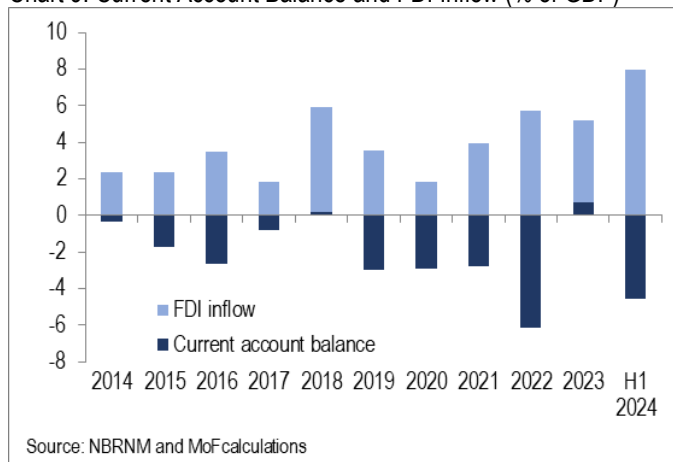
Chart 8. Annual Growth of Industrial Production (%)



Deficit in the amount of EUR 307 million (2.1% of projected GDP) was registered on the balance of payments' **current account** in the first half of 2024, being significantly higher compared to the same period in 2023. Widening of the current account deficit was mostly a result of the increased trade deficit (30.7%) and the reduced surplus in

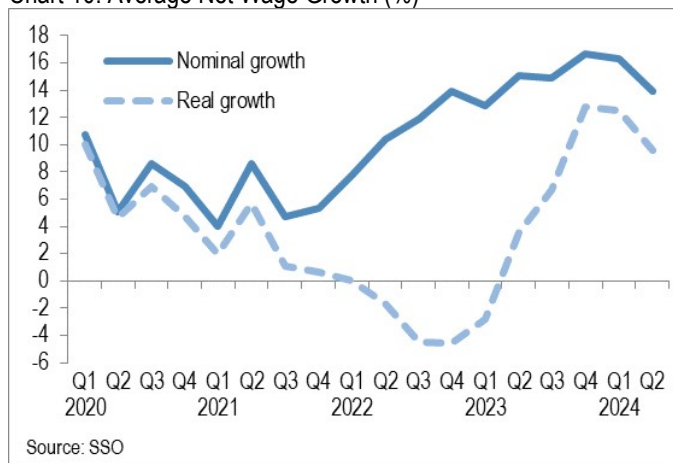
secondary income (-12.7%) and, to a lesser extent, the higher deficit in primary income (5.7%). Inflow of current transfers from abroad, both through official channels and on the basis of exchange operations, declined by 8.4% (following the increase of 10.2% in the first six months in 2023). Such trends on the current account are partially neutralised with the increased surplus of 101.8% on the services account. Inflow of FDIs in the first half of 2024 amounted to EUR 535 million (3.6% of 2024 projected GDP), exceeding the current account deficit in this period. Such inflow was mostly in the form of reinvested profit of companies with foreign capital, on which basis, 41% of the total inflow of FDIs was generated. Inflow in the form of equity accounted for 26.5% of the FDI inflow, while the remaining inflow (27%) was in the form of debt instruments. Reserve assets amounted to EUR 4.47 billion at the end of August 2024, providing for 4.6-month coverage of import of goods and services in the previous 12-month period, being at an adequate level.

Chart 9. Current Account Balance and FDI Inflow (% of GDP)



As per the data of the State Statistical Office, in Q2 2024, **unemployment rate** accounted for 12.5% at the category aged 15 to 74, while accounting for 22.8% at the youth population (aged 15 - 29 years) and, compared to Q2 2023, they decreased by 0.6 p.p. and 1.7 p.p. respectively. Unemployed persons totalled 98,416, declining by 5.3% (5,472 persons). Unemployment rate at the category aged 15 to 89 accounted for 45.6% and, compared to the previous quarter, it increased by 0.1 p.p.. Employed persons totalled 691,736, increasing by 0.3% (2,022 persons). Average net wage increased by 14.7% in the first seven months of 2024 compared to the same period last year, being higher by 10.8% in real terms. Increase of net wage was registered in all sectors, the highest being observed in Public Administration and defense, Education and Arts, entertainment and recreation.

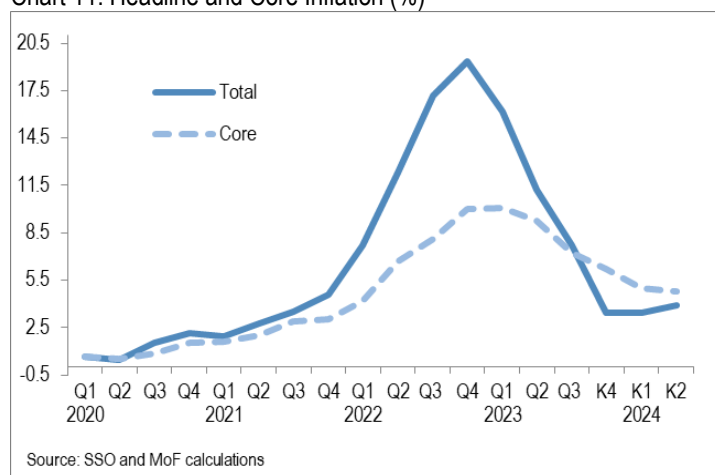
Chart 10. Average Net Wage Growth (%)



In August 2024, **inflation** rate dropped to 2.2% on annual basis (from 3.0% in July 2024), hence, average inflation rate accounted for 3.4% in the period January - August 2024. Growth of food and energy prices slowed to 2.2% and 1.8% respectively, as did the growth of prices of oil derivatives, increasing by 0.2%. Core inflation, contributing the most to the increase of the headline inflation, was 5.0% in the period January - August 2024,

stabilizing at a slower pace. Such trends of core inflation show that inflation in the previous period had widespread secondary effects on the prices in the economy, incorporated in the inflation expectations of the economic entities.

Chart 11. Headline and Core Inflation (%)



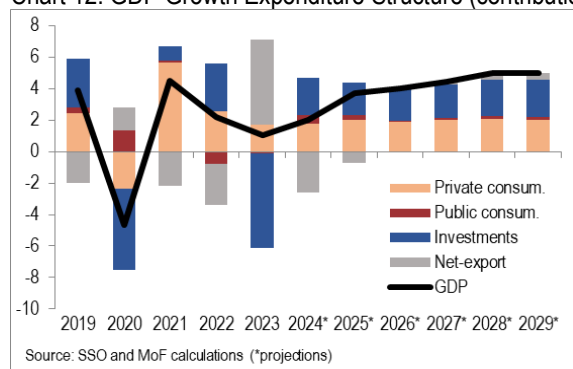
As per the assessments of the National Bank, economic conditions enable the start of a gradual prudent normalisation of the monetary policy setup, hence, in September 2024, interest rate on CB bills was reduced by 0.25 p.p. to 6.05%. In August 2024, total credits grew by 7.5% on annual basis, amid growth of both credits to enterprises of 8.1% and credits to households of 7.2%. Total deposit potential in August 2024 grew by 9.1% on annual basis, with deposits of households increasing by 12% and deposits of enterprises picking up by 3.9%.

1.3 Medium-Term Macroeconomic Projections

2025 - 2029 medium-term macroeconomic scenario includes the assumptions, the projects and the measures incorporated in the Operational Program of the Government of the Republic of North Macedonia. As opposed to the growth model of the previous Government resting on consumption, main goal of this Government is to generate economic growth via investments, boosted competitiveness of the domestic economy and export growth. Increased share of capital expenditures, increased financial support for the investment activity of domestic production companies, expansion of existing and attracting new foreign companies are expected to contribute to attaining higher economic growth, i.e. gradually reaching GDP growth of 5%. Strategic investments in infrastructure and energy, support to innovations, competitiveness and productivity of companies, accompanied by measures aimed at digitalisation and innovations in IT, will contribute to increasing the total productivity in the economy and creating conditions for sustainable economic growth. Thereby, one of the main assumptions for generating accelerated growth is for the global trends to get back to normal, inflationary pressures to stabilise and economic activity at our major trading partners to strengthen, thus contributing to increased external demand and more favourable investment climate.

EU's Growth Plan for the Western Balkans is expected to underpin the economic growth. As per the third pillar under the respective Plan, 2024 - 2027 Reform Agenda has been prepared, incorporating reform measures in five priority areas, the implementation of which provides for budget support in the amount of around EUR 750 million. Investments under the Reform Agenda refer to transport and energy infrastructure, education, digitalisation.

Chart 12. GDP Growth Expenditure Structure (contribution to GDP/growth, percentage points)



Gross investments are expected to play major role in boosting the economic activity, and its gradual intensification in the medium run (Chart 12). In the period 2025 - 2029, investments are expected to grow at an average rate of 7.8%. Scaled-up capital investments as foreseen under the Budget will be the driver of gross investments, accounting for 4.7% on average (compared to around 3% in the previous period), in particular investments in efficient infrastructure which will boost both the competitiveness and the development of the business entities, as well as attract new foreign investments. Launching the construction of Corridors 8 and 10d, as per the steps undertaken for cost optimisation, the dynamics and the conditions, the construction and reconstruction of numerous highways, express, national, regional and local roads, railway transport, investments in energy, agriculture, education, health, as well as digitalisation and environment are expected to substantially contribute thereto. Moreover, to the end of a more balanced regional development, municipalities will have access to substantial financial resources under favourable terms and conditions intended for investment projects, which are to improve the living conditions of the citizens. Scaling up domestic private investments will be encouraged via the predictable tax environment, by extending affordable financial resources for investments to the production capacities, digitalising public services and reducing bureaucracy, supporting export-oriented capacities, rationalising and digitalising border procedures, enhanced access to affordable financial resources for the SMEs through the Development Bank intended for investments and green transition. High growth of gross investments will be also underpinned by the increased inflow of FDIs, by redesigning the financial support system, mapping the industries focused on advanced technologies with higher added value.

Following the decline in the past period, export activity is expected to recover in 2025, with a projected growth of 4.3%, amid gradual stabilisation of the international environment and increase of the external demand. Support to domestic companies by amending the Law on Financial Support to Investments to the end of boosting competitiveness and productivity for production of higher added value products, expanding the capacities of the existing and attracting new foreign companies, is expected to strengthen the export potential of the country over the medium term, hence, its average growth in the period 2026 - 2029 is projected at 6.1% annually.

Scaled-up investments and domestic demand will contribute to increased import, which is expected to be 4.7% on average annually in the period 2025 - 2029. Thereby, during the forecasting period, starting 2026, contribution of net export is expected to moderately shift to the positive zone as a result of the stronger growth of the export.

Private consumption, projected to increase by 2.8% in real terms in 2025, is expected to significantly contribute to the economic growth, growing by 3.0% on average annually in the period 2026 - 2029. Such growth of private consumption will be underpinned by the increased number of employees, net wage rise, supported by productivity growth, as well as pension increase, by their linear increase on two occasions in September 2024 and March 2025 - total of Denar 5,000 per pensioner, which will increase the consumption by persons with lower pensions. Credit support to households is expected to continue in the coming period as well, maintaining solid level of private transfers, which are an additional source of household disposable income.

Public consumption in 2025 is projected to grow to 1.9%, mainly as a result of the effects from the increased wages in certain sectors of the public administration (education and health sectors above all), while growth in the period 2026 - 2029 is expected to be much moderate, accounting for 0.8% on average annually. Moderate growth of public consumption is in line with the expected efforts for reducing non-productive budget expenditures, strengthened public finance management and implementing the fiscal consolidation process.

Table 1. Key Macroeconomic Indicators for North Macedonia

| | 2022 | 2023 | 2024* | 2025* | 2026* | 2027* | 2028* | 2029* |
|------------------------------------|------|------|-------|-------|-------|-------|-------|-------|
| GDP, real growth rate (%) | 2.2 | 1.0 | 2.1 | 3.7 | 4.0 | 4.4 | 5.0 | 5.0 |
| Inflation rate (average) | 14.2 | 9.4 | 3.5 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Gross capital formation (% of GDP) | 36.0 | 23.9 | 24.8 | 26.3 | 27.9 | 29.3 | 30.5 | 31.6 |
| Current account balance (% of GDP) | -6.1 | 0.7 | -2.1 | -1.8 | -1.7 | -1.5 | -1.5 | -1.4 |
| Net wage - nominal growth (%) | 10.9 | 14.9 | 13.0 | 7.5 | 5.5 | 5.0 | 5.0 | 5.0 |
| Unemployment rate (average) | 14.4 | 13.1 | 12.5 | 11.2 | 10.1 | 9.0 | 7.5 | 7.3 |
| Employment (average) | 47.3 | 45.4 | 46.0 | 47.1 | 48.2 | 49.4 | 50.6 | 51.6 |

Source: SSO, NBRNM and projections of Ministry of Finance (*)

Although demographic changes, such as population aging and migration, cause shrinking of the working-age population, employment rate is expected to surge, considering that almost half of the working-age population is inactive. By better targeting of the social assistance and the measures for activating the unemployed - beneficiaries of

social assistance, further improvement of the labour market conditions are expected in the coming period through the active employment measures and programmes. Substantial amount of funds are envisaged for the Employment Agency's programmes, paying special focus on young people, women and vulnerable categories, acquiring skills, additional professional education and retraining, as well as support to entrepreneurship. In 2024, amid moderate growth of the economy, number of employees is projected to increase by 1.0%, with an average annual increase in the number of employees by 1.8% in the period 2025 - 2029. Such trends on the labour market are envisaged to provide for the unemployment rate to gradually drop, reaching 7.3% in 2029. At the same time, employment rate is projected to gradually pick up, reaching 51.6% in 2029. Average net wage in the period 2025 - 2029 is expected to rise at an average rate of 5.6%, underpinned by productivity growth.

Following its high increase in the past two years, inflation rate is expected to substantially drop to 3.5% in 2024. Such projection is based on the expected stabilisation of prices of basic food products and energy products on the international market, slowdown of foreign effective inflation, as well as more moderate pressure from the core inflation. Inflation is expected to fully stabilise over the medium term, hence, in the period 2025 - 2029, average inflation rate is projected at 2.0%. Growth model of the Government, which is based on investments and export, measures aimed at strengthening both the domestic food production by supporting agriculture production and food industry, as well as the domestic energy infrastructure for the purpose of greater domestic electricity generation and easier access to gas, are structural factors to contribute to lower inflation rates. Crucial element to achieving low inflation is also the coordination between the fiscal and the monetary policy which was absent in the past period, which resulted in highest inflation rates since 1995 onwards.

BOP current account balance is expected to record deficit accounting for 2.1% of GDP in 2024, considering the expected negative contribution of net export. Average current account deficit over the medium term is envisaged to account for 1.6% of GDP. Thereby, during this period, current account deficit is projected to gradually narrow, as a result of the expected narrowing of the trade deficit. Amid normalisation of the trends in both the global and the domestic economy, FDI inflow is expected to pick up in the period 2025 - 2029, accounting for 4% of GDP on average, having a positive contribution to keeping the reserve assets at an adequate level.

Baseline macroeconomic scenario is accompanied by risks, mainly assessed as downside ones, in relation to the projected economic growth. Risks related to the external environment remain to be associated with geopolitical tensions. War conflict in Ukraine adversely affects the European economy, in particular the economic activity in Germany, as a country to which the domestic companies export the most and, coupled with the war conflict in the Middle East, it affects the global perception of peace. Further deepening of geoeconomic fragmentation, with higher barriers to the flow of goods, capital and people, would have unfavourable effects on the supply chains and the stock market prices, also affecting trade and external environment. Risks to inflation forecasts are related to commodities price trends, i.e. their increase due to geopolitical factors and disrupted supply chains.

2. Budget of the Republic of North Macedonia (Central Government Budget and Budgets of the Funds)

2.1 2023 Revenue Performance and Expenditure Execution

Despite the envisaged fiscal consolidation in 2023, fiscal policy remained to be expansionary, with the budget deficit amounting to Denar 41.4 billion being by 16.71% higher compared to the one in 2022. In 2023, budget deficit accounted for 4.9% of GDP, being significantly above 3% of GDP annually as per the fiscal rule on general government deficit. Initially, budget deficit was projected to account for 4.6% of GDP, however, the lower-than-projected nominal GDP growth in 2023 caused for the deficit to be even higher in relative terms. Organic Budget Law prescribes for exemptions in exceptional circumstances (paragraph 6, Article 10) and an exception of up to 0.5% of GDP in cases of implementation of investment projects (on cumulative basis over a period of five years - paragraph 7, Article 10). However, budget deficit created substantially exceeded the 0.5% fiscal rule even by applying the respective exemption, hence there was no room to further apply the exemption.

Throughout 2023, budget funds were reallocated twice. As regards the initial 2023 Budget, revenues on the basis of VAT, excise duties and non-tax revenues were significantly revised downward under the first reallocation, while revenues collected on the basis of contributions, CIT and PIT were substantially revised upward. On the expenditure side, current expenditures were significantly increased under the first reallocation due to the increased transfers to PDIF and increased wages-and-allowances-related costs, with the amount for capital expenditures and other transfers being substantially reduced. The respective reallocation reflected the overestimated growth of revenues on the basis of VAT and excise duties, which were mostly based on the performance in the previous two years. In 2021, VAT revenues considerably increased due to the low comparative basis of 2020 and the opening of the economy, while in 2022, revenues increased amid the start of the high and persistent inflation. However, the

assumption for the significantly lower real private consumption amid high inflation was not taken into account in the initial forecasts for 2023, which assumed inflation leading to increase in VAT revenues. Increase of the minimum wage, as basis to calculate wages in general, and the initiated adjustment of wages with the inflation both in the private sector and part of the public sector, were not taken into account in the initial 2023 Budget projections. Hence, under the reallocation, revenues on the basis of contributions and PIT revenues were considerably increased, causing wage and allowance-related expenditures and pension-related expenditures to increase as per the formula for indexation of pensions with the increased costs of living (inflation) (50%) and increased average net wage per employee (50%). Such indexation affected adversely the amount of capital expenditures and underestimated other transfers, which were continuously maintained at high level during and after the coronavirus-induced crises. Under the second reallocation, changes occurred only in the expenditure structure, whereby expenditures for goods and services (being projected relatively high) were decreased, with the respective amount being allocated for increase of transfers to PDIF, social assistance and other transfers.

Despite the reallocations made, 2023 Budget was not executed as projected. Total revenues in 2023 amounted to Denar 277.1 billion, accounting for 98.2% of the projected revenues, with the revenues underperforming by Denar 4.9 billion. Highest underperformance was recorded at tax revenues, due to the lower performance of VAT revenues and excise revenues, while inflows on the basis of contributions overperformed. In addition, underperformance was also registered at both non-tax and capital revenues.

Compared to 2022, total revenues were higher by 14%, mostly as a result of the higher revenues generated on the basis of contributions. Tax revenues and revenues generated on the basis of contributions amounted to Denar 250.4 billion, accounting for 98.8% of the projections. Tax revenues in 2023 were collected in the amount of Denar 157.7 billion, accounting for 97.2% of the projections, being lower by Denar 4.5 billion. VAT revenues amounted to Denar 70 billion, declining by 3.4% and being lower by Denar 2.4 billion in relation to the projections. Revenues collected on the basis of excises amounted to Denar 26.8 billion, declining by 3.3% and being lower by Denar 918 billion in relation to the projections. Revenues collected on the basis of customs duties and motor vehicles tax amounted to Denar 11.2 billion, being by 0.9% or by Denar 104 million lower in relation to the projections. PIT revenues were collected in the amount of Denar 27.2 billion, being by 1.4% or by Denar 378 million lower in relation to the projections under the Decision on Reallocation of Funds between Central Government Budget Users and the Funds. Revenues generated on the basis of CIT totalled Denar 16,927 million, being by 2.7% or by Denar 477 million lower compared to the projections.

Other tax revenues and tax revenues on special revenue accounts (SRAs) collected in 2023 amounted to Denar 5,451 million, being significantly higher in relation to the previous years as a result of the solidarity tax, the revenue collection of which in 2023 amounted to Denar 2.9 billion, while, compared to the projections under the respective Decision, revenue performance was lower by 3.3% or by Denar 184 million. Fiscal effect of the solidarity tax was initially projected at Denar 4.7 billion. However, the Law, proposed to the Parliament, incorporating the taxpayers' requests, prescribed for a more favourable way of assessing the tax base for the solidarity tax, as a result of which less revenues than projected were collected. In addition, Denar 88.9 million was collected on the basis of the solidarity tax in 2024.

In 2023, total expenditures were executed in the amount of Denar 318.6 billion, accounting for 98% of the projections and being lower by Denar 6.2 billion. Current expenditures amounted to Denar 275.1 billion in the total budget expenditures, being lower by 1.7% or by Denar 4.8 billion in relation to the projections, with capital expenditures amounting to Denar 43.5 billion, being lower by 3.2% in relation to the second reallocation (and by 10.7% in relation to the initial projections). If budget funds employed for Corridors 8 and 10d are excluded, capital expenditures amounted to Denar 28.5 million, being at the same level as in 2022.

Underexecution of current expenditures was mostly due to the lower execution of social transfers (by Denar 1.7 billion, almost equally distributed at transfers to PDIF, Employment Agency, social assistance and healthcare), lower execution of both other transfers (by Denar 1.3 billion) and expenditures for goods and services (by Denar 1.5 billion). Interest-related expenditures in 2023 were executed in the amount of Denar 12.9 billion, as per the initial Budget projections.

In relation to 2022, total expenditures were higher by 14.3%, mostly as a result of the higher execution for social transfers, surging by 13.0% on annual level. Thereby, execution for transfers related to pensions increased by 15.4% on annual basis, transition costs related to mandatory private pension funds surged by 12.5%, expenditures related to social assistance and healthcare picked up by 15.4% and 11.2% respectively. Transfers to LGUs experience an annual increase of 17.5%. Expenditures related to wages and allowances were higher by 14.7% on annual basis. In 2023, the highest increase of 41.6% was recorded at interest-related expenditures, with expenditures related to payment of interest on external debt being the highest therein (53% increase, as opposed to 22.5% annual increase of expenditures related to payment of interest on domestic debt).

2023 Budget deficit amounted to Denar 41.4 billion, accounting for 4.9% of the 2023 revised GDP.

Such 2023 Budget execution indicates that the cost of high inflation was large, strongly reflecting on the Budget. High prices and wage adjustment had a positive effect on VAT revenues in the Budget, as well as PIT revenues and revenues collected on the basis of contributions, however, expenditures related to transfers for pensions and wages also picked up considerably. Rising debt with higher interest rates caused high interest repayment costs and narrowed the discretionary room of the fiscal policy. At the same time, despite the regular servicing of the increased interest-related expenditures, expenditures related to pensions and public administration wages throughout 2023, most of the arrears incurred by the Government were not serviced. Arrears at the end of 2023 amounted to over Denar 25.1 billion, out of which more than Denar 12 billion as arrears towards the private sector.

Table 2. 2023 Budget Execution

| | Budget 2023 | Realloca tion I | Reallocat ion II | Realization 2023 | Realization 2022 | Realization 2023/Reallocation II (%) | Realization 2023/Realization 2022 (%) |
|--|----------------|--------------------|---------------------|---------------------|---------------------|---|---|
| | Bo % | | | | | | |
| TOTAL REVENUES | 282,052 | 282,052 | 282,052 | 277,127 | 243,085 | 98.3% | 14.0% |
| Taxes and Contributions | 250,689 | 253,205 | 253,205 | 250,355 | 220,186 | 98.9% | 13.7% |
| Taxes | 162,600 | 162,235 | 162,235 | 157,733 | 142,567 | 97.2% | 10.6% |
| Personal Income Tax | 26,500 | 27,635 | 27,635 | 27,257 | 23,852 | 98.6% | 14.3% |
| Profit Tax | 14,700 | 17,404 | 17,404 | 16,927 | 15,776 | 97.3% | 7.3% |
| VAT (net) | 78,500 | 72,477 | 72,477 | 70,036 | 64,764 | 96.6% | 8.1% |
| Excises | 29,200 | 27,736 | 27,736 | 26,818 | 25,483 | 96.7% | 5.2% |
| Import Duties | 10,700 | 11,348 | 11,348 | 11,244 | 9,973 | 99.1% | 12.7% |
| Other Taxes | 3,000 | 5,635 | 5,635 | 5,451 | 2,719 | 96.7% | 100.5% |
| Contributions | 88,089 | 90,970 | 90,970 | 92,622 | 77,619 | 101.8% | 19.3% |
| Non Tax Revenues | 19,894 | 17,962 | 17,962 | 16,865 | 17,189 | 93.9% | -1.9% |
| Capital Revenues | 2,800 | 2,800 | 2,800 | 2,071 | 2,273 | 74.0% | -8.9% |
| Foreign Donations | 8,669 | 8,085 | 8,085 | 7,836 | 3,437 | 96.9% | 128.0% |
| TOTAL EXPENDITURES | 324,810 | 324,811 | 324,810 | 318,574 | 278,596 | 98.1% | 14.3% |
| Current Expenditures | 276,059 | 279,888 | 279,833 | 275,050 | 249,959 | 98.3% | 10.0% |
| Wages and Allowances | 34,880 | 37,457 | 37,307 | 36,877 | 32,159 | 98.8% | 14.7% |
| Goods and Services | 23,631 | 23,678 | 22,596 | 21,117 | 21,001 | 93.5% | 0.6% |
| Transfers to LGUs | 26,687 | 27,685 | 27,685 | 27,459 | 23,365 | 99.2% | 17.5% |
| Subsidies and transfers | 31,548 | 26,140 | 26,672 | 25,561 | 30,581 | 95.8% | -16.4% |
| Social Transfers | 146,390 | 151,708 | 152,458 | 151,095 | 133,713 | 99.1% | 13.0% |
| Interest | 12,923 | 13,220 | 13,115 | 12,941 | 9,140 | 98.7% | 41.6% |
| Capital Expenditures | 48,751 | 44,923 | 44,977 | 43,524 | 28,637 | 96.8% | 52.0% |
| BUDGET BALANCE | -42,759 | -42,759 | -42,758 | -41,447 | -35,511 | 96.9% | 16.7% |
| BUDGET BALANCE (% of GDP) | -5.1% | -5.1% | -5.1% | -4.9% | -4.4% | | |
| Primary budget balance (% of GDP) | -3.5 | -3.5 | -3.5 | -3.4 | -3.3 | | |
| FINANCING | 42,759 | 42,759 | 42,758 | 41,447 | 35,511 | | |
| Inflow | 94,876 | 94,851 | 94,973 | 85,035 | 46,869 | | |
| Domestic | 33,626 | 43,011 | 51,114 | 36,156 | 14,681 | | |
| Foreign | 66,876 | 65,885 | 65,978 | 63,130 | 25,801 | | |
| Deposits | -5,626 | -14,045 | -22,119 | -14,251 | 6,387 | | |
| Outflow | 52,117 | 52,092 | 52,215 | 43,588 | 11,358 | | |
| Domestic | 15,611 | 15,664 | 15,664 | 7,474 | 5,571 | | |
| Foreign | 36,506 | 36,428 | 36,551 | 36,114 | 5,787 | | |

source: Ministry of Finance

2.2 2024 Supplementary Budget of the Republic of North Macedonia

2024 Supplementary Budget of the Republic of North Macedonia was aimed at revising the initial fiscal projections in line with the macroeconomic trends in the first half of the year, restructuring the budget expenditures for servicing the urgent liabilities, as well as optimizing the sources of financing the budget deficit.

As regards the expenditure side, under the revised projections, non-essential expenditures were reduced, as well as expenditures related to projects with slower pace of implementation, at the same time providing funds for settlement of both liabilities and arrears, as well as the new policies of the Government aimed at linear increase of pensions, local infrastructure projects.

The projected level of budget expenditures allowed for regular and smooth functioning of institutions, settling the liabilities towards international creditors, as well as improving the living standard of citizens and companies.

Total expenditures were projected in the amount of Denar 318.2 billion, being higher by 2.6%, i.e. by around Denar 8 billion, compared to the initial 2024 projections.

Total expenditures were projected in the amount of Denar 362.8 billion, being higher by 5.6%, i.e. by around Denar 19.2 billion, compared to the initial 2024 projections. Already assumed liabilities, which were not projected in the initial Budget, required revision and increase of the expenditures. Additional budget funds were to be provided for the following:

- payment of wages - around Denar 4.2 billion, due to the obligations under the signed Collective Agreements and the legal decisions adopted following the adoption of the 2024 State Budget, as follows:

- Ss. Cyril and Methodius University's Collective Agreement and the amendment to the laws on higher education and science research activities,

- adjustment of minimum wage for employees, having the minimum wage as a component of the basic wage,

- wage adjustment according to the Cost of Living Index for the first half of the year, according to the provisions of the General Collective Agreement for the public sector employees,

- entitlement of former officeholders to allowance,

- payment of pensions, with additional Denar 5.1 billion being provided,

- transition costs - second pension pillar, with additional Denar 400 million being provided,

- beneficiaries of the right to guaranteed minimum assistance, with additional financial support in the amount of around Denar 0.8 billion being provided,

- healthcare, with additional Denar 1.7 billion being provided, intended for health insurance, sick leave and payment of liabilities,

- TIDZ, with additional Denar 1 billion being projected,

- subsidies and transfers for direct financial support in the agriculture sector, with additional Denar 1.7 billion being provided,

- student meals and scholarships, with additional funds in the amount of Denar 437 million and Denar 207 million being provided respectively,

- block grants, with additional Denar 300 million being provided for operating costs,

- financing the broadcasting services,

- financing election activities and political parties,

- court rulings, and penalties towards European Commission due to irregularities detected by OLAF,

- payment of interest to domestic and foreign creditors, with additional funds in the amount of around Denar 0.8 billion being provided,

- SOEs on the basis of borrowing (guarantees distress), with budget funds in the amount of Denar 5.1 billion being provided, obliging these SOEs to repay the liabilities on the basis of issued guarantees to the State Budget successively by the end of 2024,

- local infrastructure projects, with Denar 6 billion being projected.

On the basis of the revised projections for budget revenues and expenditures, initially projected deficit of 3.4% of the projected GDP was revised upwards at 4.9% of GDP, i.e. from Denar 33.5 billion to Denar 44.7 billion. Exemption from the fiscal rule was due, above all, to the necessity of providing funds indispensable for smooth functioning of the institutions, servicing of liabilities, as well as downward revision of economic growth projections.

2.3 Revenue Performance and Expenditure Execution in the period January - August 2024

In the period January - August 2024, total revenues of the Budget of the Republic of North Macedonia³ (Table 3) were collected in the amount of Denar 197.5 billion or 62.1% of the revenues projected in the 2024 Budget. Compared to the same period in 2023, total revenues collected were higher by 12%. Tax revenues and revenues generated on the basis of contributions amounted to Denar 184 billion, accounting for 64.7% of the projections. During this period, tax revenues were collected in the amount of Denar 115.8 billion, accounting for 64.6% of the projections, increasing by 16.5% in relation to the reference period last year. VAT revenues were collected in the amount of Denar 52.3 billion. PIT revenues were collected in the amount of Denar 19.9 billion, with CIT revenues and excise revenues collected in the amount of Denar 14.5 billion and Denar 19 billion respectively. Revenues on the basis of social contributions were collected in the amount of Denar 68.2 billion, being by Denar 9.3 billion or by 15.9% higher in

³ Pursuant to the 2024 Supplementary Budget of the Republic of North Macedonia ("Official Gazette", no. 169/24 dated 15th August 2024)

relation to the respective period in 2023. Revenues collected on the basis of pension insurance contributions and employment contribution amounted to Denar 46.1 billion and Denar 2.8 billion respectively, with revenues on the basis of health insurance contributions amounting to Denar 19.3 billion.

In the period January – August 2024, non-tax revenues were collected in the amount of Denar 11.2 billion. Non-tax revenues on special revenues were collected in the amount of Denar 6.1 billion. Capital revenues were collected in the amount of Denar 597 million, while revenues generated on the basis of foreign donations (multilateral and bilateral cooperation) amounted to Denar 1.7 billion.

In the period January - August 2024, total expenditures of the Budget of the Republic of North Macedonia were executed in the amount of Denar 221.6 billion, accounting for 61.1% of the projections. Current expenditures amounted to Denar 205.2 billion, i.e. accounting for 64.5% of the projections.

During the respective period, expenditures related to wages and allowances were executed in the amount of Denar 28.4 billion, with expenditures related to goods and services amounting to Denar 13.6 billion. Expenditures related to transfers to LGUs amounted to Denar 19.8 billion, with the expenditures for subsidies and transfers and social transfers amounting to Denar 18.4 billion and Denar 111.5 billion respectively. Interest-related expenditures were executed in the amount of Denar 13.6 billion.

Capital expenditures amounted to Denar 16.4 billion in the period January - August 2024, accounting for 36.6% of the projections.

2024 Budget deficit amounted to Denar 24 billion in the respective period, accounting for 2.7% of the 2024 projected GDP.

At the end of Q2 2024, total outstanding arrears of the state were exceptionally high, amounting to over Denar 42 billion, i.e. accounting for 4.4% of GDP, and being by more than Denar 17 billion higher compared to end-2023. In June 2024, arrears towards the private sector and the public sector amounted to Denar 14.3 billion and Denar 27.7 billion respectively. Major debtors among the entities having reported data in the MoF's Electronic System for Reporting and Recording Liabilities are the following: Nomagas JSC Skopje (Denar 5.4 billion), Macedonian Railways Transport JSC Skopje (Denar 4.1 billion), Macedonian Railways Infrastructure PE Skopje (Denar 3 billion), Company for Distribution of Heat Energy ESM Heat Distribution LLC (sole proprietor) Skopje (Denar 2.1 billion), JSC Power Plants of North Macedonia (Denar 1.6 billion), Public Enterprise for State Roads - Skopje (Denar 1.3 billion), Public Enterprise for Water Supply and Sewerage Skopje (Denar 0.8 billion), City of Skopje (Denar 0.7 billion) and PHI University Clinic for Radiotherapy and Oncology (Denar 0.6 billion). These are arrears which will additionally burden, directly and indirectly, the Budget in the coming period.

Table 3. 2024 Budget of the Republic of North Macedonia and its Execution in the period January – August 2024

| | Budget 2024 | Revised Budget 2024 | Realization Jan-August 2024 | Realization Jan-August 2023 | Realization Jan- August 2024/Revised Budget 2024 | Realization Jan- August 2024/Realization Jan-August 2023 |
|--|----------------|---------------------------|-----------------------------------|-----------------------------------|---|---|
| | in % | | | | | |
| TOTAL REVENUES | 310,097 | 318,150 | 197,543 | 175,747 | 63.7% | 12.4% |
| Taxes and Contributions | 279,044 | 284,469 | 184,016 | 158,261 | 65.9% | 16.3% |
| Taxes | 178,067 | 179,257 | 115,790 | 99,372 | 65.0% | 16.5% |
| Personal Income Tax | 31,116 | 31,542 | 19,887 | 16,842 | 63.9% | 18.1% |
| Profit Tax | 19,483 | 21,118 | 14,513 | 12,191 | 74.5% | 19.0% |
| VAT (net) | 80,698 | 78,458 | 52,289 | 43,724 | 64.8% | 19.6% |
| Excises | 30,969 | 29,837 | 19,024 | 17,836 | 61.4% | 6.7% |
| Import Duties | 12,124 | 13,556 | 8,272 | 7,182 | 68.2% | 15.2% |
| Other Taxes | 3,677 | 4,746 | 1,805 | 1,597 | 49.1% | 13.0% |
| Contributions | 100,977 | 105,212 | 68,226 | 58,889 | 67.6% | 15.9% |
| Non Tax Revenues | 20,394 | 22,541 | 11,237 | 10,536 | 55.1% | 6.7% |
| Capital Revenues | 3,210 | 3,240 | 597 | 639 | 18.6% | -6.6% |
| Foreign Donations | 7,449 | 7,900 | 1,693 | 6,311 | 22.7% | -73.2% |
| TOTAL EXPENDITURES | 343,638 | 362,816 | 221,153 | 202,809 | 64.4% | 9.0% |
| Current Expenditures | 298,459 | 318,117 | 204,776 | 176,521 | 68.6% | 16.0% |
| Wages and Allowances | 41,178 | 44,537 | 28,353 | 23,229 | 68.9% | 22.1% |
| Goods and Services | 25,113 | 25,509 | 13,634 | 12,702 | 54.3% | 7.3% |
| Transfers to LGUs | 29,834 | 30,787 | 19,806 | 17,686 | 66.4% | 12.0% |
| Subsidies and transfers | 22,242 | 27,428 | 18,361 | 16,515 | 82.6% | 11.2% |
| Social Transfers | 163,282 | 172,224 | 111,479 | 96,963 | 68.3% | 15.0% |
| Interest | 16,810 | 17,632 | 13,143 | 9,426 | 78.2% | 39.4% |
| Capital Expenditures | 45,179 | 44,698 | 16,377 | 26,288 | 36.2% | -37.7% |
| BUDGET BALANCE | -33,541 | -44,666 | -23,610 | -27,062 | 70.4% | -12.8% |
| BUDGET BALANCE (% of GDP) | -3.7% | -4.9% | -2.6% | -3.2% | | |
| Primary budget balance (% of GDP) | -1.9 | -3.0 | -1.2 | -2.1 | | |
| FINANCING | 33,541 | 44,666 | 23,610 | 27,062 | | |
| Inflow | 78,595 | 83,727 | 51,256 | 65,650 | | |
| Domestic | 39,753 | 55,128 | 37,410 | 23,927 | | |
| Foreign | 43,164 | 48,987 | 14,233 | 32,578 | | |
| Deposits | -4,322 | -20,389 | -388 | 9,145 | | |
| Outflow | 45,054 | 39,061 | 27,646 | 38,588 | | |
| Domestic | 18,625 | 18,727 | 15,812 | 6,421 | | |
| Foreign | 26,429 | 20,334 | 11,834 | 32,167 | | |

source: Ministry of Finance

2.4 2025 - 2029 Medium-Term Framework of the Budget of the Republic of North Macedonia

Medium-term fiscal framework is prepared in line with the provisions stipulated in the OBL, including the 2024 - 2028 strategic priorities and 2024 - 2028 Fiscal Policy Statement.

In line with the Decision on Determining Strategic Priorities, following priorities are established:

- restoring confidence in the institutions, strengthening the security, efficient fighting against corruption and crime, independence of judiciary and rule of law;

- country's economic revival, enhancing the energy transition, encouraging strong economic growth, stable public finances, improving the overall transport infrastructure, increasing the living standard, better and quality life for everyone;

- improving the national defense policy and planning in support of protecting independence, territorial integrity, safety of the citizens, as well as collective safety;
- integration of the Republic of North Macedonia in the European Union;
- extensive improvement of quality, infrastructure and availability of/accessibility to education, creating a knowledge-based society and successfully coping with the modern challenges;
- professional and efficient public administration, development of digital economy, ICT sector, artificial intelligence, innovations and startup ecosystem;
- creating a setting for clean environment and coping with climate changes, and
- implementing the Ohrid Framework Agreement in full, strengthening multicultural cohesion and promoting multicultural values.

In addition, the Fiscal Policy Statement sets the key principles and goals of the fiscal policy to be implemented during the term of office of the Government of the Republic of North Macedonia in the period 2024 - 2028, included in the Fiscal Strategy.

2025 - 2029 fiscal policy will be aimed at the following goals:

- improving macroeconomic stability, supporting economic activity, accelerating economic growth,
- adhering to the fiscal rules, through gradual fiscal consolidation and disciplined budget spending,
- growth in capital expenditures by making investments in infrastructure projects,
- reducing the grey economy and higher budget revenue collection,
- strengthening the growth potential of the domestic economy.

Fiscal policy for the period 2025 - 2029 will be also aimed at creating preconditions for a new cycle of economic growth via boosted public capital investments, gradual fiscal consolidation and improved public finance management.

In addition to the commitment to fiscal consolidation and budget savings, economy will continue to be supported by investing in infrastructure projects, redesigning the public finance structure by maintaining high level of capital expenditures, as well as strengthening both the transparency and the accountability.

At the same time, non-essential expenditures will be reduced and spending effectiveness and appropriateness will be substantially improved, reflecting the commitment to pursuing disciplined fiscal policy.

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections.

Share of capital expenditures accounting for more than 5% of GDP on annual basis is of key importance for generating economic growth and development.

In order for the fiscal policy to be sustainable over the medium term, fiscal projections envisage a framework for adhering to the fiscal rules, designed so as to be harmonised and consistent with the EU fiscal rules.

Fiscal rules are introduced for the first time under the OBL and entered into force in January 2023.

The Budget and the Fiscal Strategy should be in conformity with the fiscal rules pertaining to both the deficit and the total general government debt:

1. General government deficit for the respective year may not exceed 3% of the nominal gross domestic product (GDP).

2. Total general government debt may not exceed 60% of the nominal GDP, while the guaranteed public debt may not exceed 15% of the nominal GDP.

3. Exception from the stipulated fiscal rules is prescribed in case of occurrence of one of the following extenuating circumstance:

- natural disasters and external shocks jeopardising the national security or the lives and the health of the people;
- state of emergency and/or crisis situation;
- abrupt financial or economic shocks, resulting in a negative or a very low annual real GDP growth close to zero, the overcoming of which requires a significant support from the fiscal policy.

4. Exceptions from the fiscal rules are allowed in cases of implementation of investment projects with a positive impact on GDP. The respective exceptions should not exceed 0.5% of GDP annually and on cumulative basis over a period of five years.

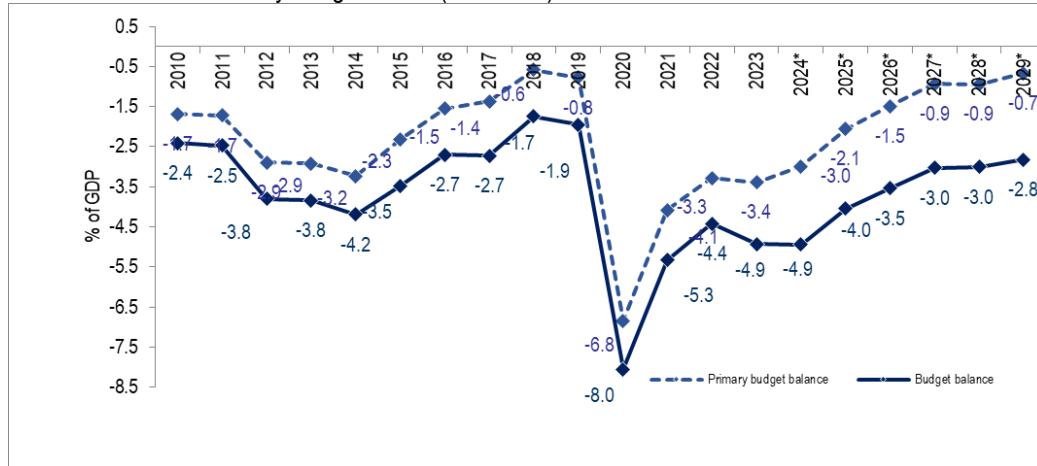
5. The Government is obliged, as regards any exception, to clearly explain the following to the Parliament when submitting the immediate subsequent Budget or Supplementary Budget, or the immediate subsequent Fiscal Strategy:

- reasons for the exception from the fiscal rules;
- corrective measures it undertakes and plans to undertake, all to the end of re-establishing

compliance with the fiscal rules within a period not longer than five years from the moment the exception occurred.

Over the medium term, fiscal policy envisages gradual fiscal consolidation, thereby, budget deficit is reduced as a percentage share of GDP, as follows: from 4.9% in 2024 to 4.0% in 2025, 3.5% in 2026, 3.0% in 2027, 3.0% in 2028 and 2.8% in 2029.

Chart 13. Total and Primary Budget Deficit (% of GDP)



In the period 2024 - 2026, exceptions from the fiscal rules as regards the budget deficit and the public debt are incorporated in the Fiscal Strategy, however, with a strong trend of gradual alignment with the respective rules in the period in question. In line with the projections in the Fiscal Strategy, fiscal rule on budget deficit is to be met in 2027. Corrective measures are presented in the revenues and expenditures section below in the document.

Reasons for exceptions from the fiscal rules in the period 2024 - 2026 arise solely from the arrears incurred by the previous Government and the need to provide financial resources for the following:

- wage adjustment as per the General Collective Agreements signed in several sectors arrears not envisaged under the initial 2024 Budget
- covering the high amount of arrears incurred by the previous Government. In July 2024, they amounted to Denar 42 billion, accounting for 4.4% of GDP. Moreover, arrears incurred by the previous Government, falling due in the second half of 2024, totalled Denar 22.2 billion, accounting for 2.3% of GDP. These arrears will, directly or indirectly, affect budget expenditures and broaden the budget deficit in future.
- implementation of infrastructure and energy projects aimed at improving quality life of the citizens and boosting the competitiveness of businesses.
- digital transformation of the public sector, improved education quality and student standards, improved quality of healthcare.
- encouraging balanced economic growth. Financing LGUs' capital projects necessitates higher transfers from the Budget.
- implementing the new policies of the Government aimed at improving the living standard of the citizens via linear increase of pensions and wage adjustment as per the General Collective Agreement.
- implementing prior agreed large infrastructure projects, such as Corridors 8 and 10d Motorway Project, for which the Parliament of the Republic of North Macedonia adopted a special Law. Initially announced value regarding the construction of Corridors 8 and 10d was EUR 1.3 billion, without thereby taking into account the costs related to expropriation, geological surveys, design and other costs related to the project construction works. International Monetary Fund assessed the Project value to account for 10% of GDP during a period of five years (IMF Country Report No. 24/26), January 2024). If IMF projection for GDP in the period 2024 - 2028 is taken into account, the Project value will amount around EUR 1.8 billion. However, this is just a projection, with the actual costs to be additionally determined once the whole procedure is completed.

This kind of arrears cannot be settled with a one-year budget, since they are not of a short-term nature, but rather generate costs over a period of several years. Hence, any possible abrupt cutting of other expenditures envisaged under the Programme of the Government so as to incorporate these substantial arrears could have huge negative consequences for the economy, i.e. the capital investments, the wages, the pensions and the social benefits which are important for the business sector and the living standard of the citizens.

Government of the Republic of North Macedonia will gradually align with the fiscal rules by implementing measures on both the revenue and the expenditure side, including:

- increased collection of budget revenues by reducing the informal economy
- improved collection of tax revenues by introducing e-invoice and other reform-oriented projects within the PRO
- further reduction of budget users' non-essential expenditures
- implementing policies on wages and pensions aimed at protecting their real value
- uncompromising fight against corruption via strict control over the adherence to the Public Procurement Law, which will provide for substantial savings at all budget users
- improving the processes of planning and implementing capital investments
- prioritizing capital projects on the basis of the ready-to-implement element and the socio-economic benefits from their implementation

2.4.1 Revenues

Total revenues of the Budget of the Republic of North Macedonia (Central Budget and Funds: Pension and Disability Insurance Fund, Health Insurance Fund and Employment Agency) for the period 2025 - 2029 are projected to around 36% of GDP. Revenue projections in the coming medium-term period are based on revenues generated in the previous years, projections for macroeconomic indicators and the effects from the planned tax reforms.

Main objective of the tax policy in the coming period is to ensure sustainable economic growth and development, thereby providing for legal certainty for taxpayers and collection of public revenues on regular basis. Its main priorities are the following:

- greater fairness in taxation, in order to ensure that everyone meets its social obligation and pays its fair share of tax;
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion, and a strengthened institutional capacity, as well as reduction of the tax arrears,

- increased tax transparency, including an improvement in the exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance,

- improved quality of services rendered by tax system institutions, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitalised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax audit,

- introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, i.e. discourage them to pollute the environment. Effects of this priority are also expected to reflect on the budget revenues, as well as the environment.

Tax policy in the coming period will be aimed at keeping the low tax rates at certain direct and indirect taxes. As regards CIT, it will be aligned with the global minimum corporate income tax. Our country has already signed the OECD/G20 initiative and, starting 2025, 15% tax rate will apply on profit generated by corporations with consolidated revenues exceeding EUR 750 million.

Table 4. Review of Tax Rates in the Republic of North Macedonia - 2024

| Type of Tax | Tax Rate % |
|--|---|
| Personal Income Tax | 10% for all types of income |
| | 15% on income on the basis of games of chance |
| CIT | 10% |
| VAT | 18% standard tax rate |
| | 10% and 5% preferential tax rate |
| Mandatory Social Insurance Contributions (all) | 28% |
| Property Tax, Annual | 0.1%-0.2% |
| Tax on Sales of Real Estate | 2%-4% |
| Tax on Inheritance and Gift | 0% - first-order heir |
| | 2% - 3% - second-order heir |
| | 3% - 4% - other |

During the previous period, changes were introduced in several tax areas, based on analyses of the national legislation and the tax revenue indicators, as well as the comparative analyses of the tax practice in the EU Member States and the other Western Balkan countries. Moreover, they incorporated findings and recommendations of international organisations, such as IMF, World Bank, OECD and EU, pointing out to the need to ensure increased vertical and horizontal fairness of the tax system and broadening of the tax base by revising **the tax exemptions**. In particular, as regards direct taxes, tax policy reforms are aimed at abolishing the non-productive tax expenditures which disrupt the neutrality of the tax system by favouring same or similar categories of taxpayers or activities, which have an adverse effect on the fair distribution of the tax burden and lead to increased inequality in the society, disrupt the robustness of the tax system by creating substantial room for tax arbitrage and/or avoidance and evasion and can cause inefficiency in the real economy.

Under the Law on Modifications and Amendments to the **Personal Income Tax Law**, the fiscal implications of which were estimated in the amount of Denar 533 million in 2024 ("Official Gazette of the Republic of North Macedonia", no. 274/22 dated 20th December 2022), tax exemptions as regards life insurance premium, premium for voluntary health insurance and contributions in a voluntary pension funds paid by the employers on behalf of and for the account of employed people are abolished, while tax base for certain benefits, considered as employees' income (benefits in kind for managers), is regulated more closely. Moreover, modifications and amendments to the Personal Income Tax Law envisage taxation of capital gains generated on the basis of sale of securities and shares issued by investment funds acquired after 1st January 2023, also closely regulating the tax base for capital gains generated on the same basis in case of inheritance or in case when their purchase price cannot be determined. The Law also

regulates more closely the manner of PIT assessing and taxation of capital gains, as well as the PIT exemption on capital gains generated on the basis of sale of real estate and sale of securities. Furthermore, modifications and amendments to the PIT Law also govern the PIT exemption on interest on time deposits, and it will apply by the day the Republic of North Macedonia joins the European Union.

Under the Law on Modifications and Amendments to the **Corporate Income Tax Law**, the fiscal implications of which were estimated in the amount of Denar 872 million in 2024 ("Official Gazette of the Republic of North Macedonia", no. 199/23 dated 25th September 2023), tax exemptions as regards life insurance premium paid by the employers on behalf of and for the account of employed people are abolished, i.e. they are envisaged to be deemed as unrecognised expenditures for tax purposes. In addition, amendments are envisaged regarding the mandatory submission of transfer price report, i.e. it is prescribed for the respective report to be submitted upon request by the tax authority. To the end of greater tax discipline, the Law envisages increased fines for the entities failing to use the funds committed to making investments from the profit generated in the previous year, but having used the tax exemption on the basis of reinvested profit and having their tax base deducted by the respective amount. Moreover, pursuant to the Law, tax exemptions as regards donations to sports entities through the voucher system are abolished, i.e. the respective donations are equally treated with the donations in the other activities of public interest, such as health, education, culture, etc..

Under the modifications and amendments to the **VAT Law**, the fiscal implications of which were estimated in the amount of Denar 2,300 million in 2024 ("Official Gazette of the Republic of North Macedonia", no. 199/23 dated 25th September 2023), the respective Law is further harmonised with the EU Acquis in the field of value added tax. In fact, under the Law on Modifications and Amendments to the VAT Law, the respective Law is further harmonised with the EU Directives as regards defining the VAT treatment of vouchers, defining the place of supply of services and introducing VAT tax representative so as for the foreign entities having no head office or subsidiary on the territory of the Republic of North Macedonia, but rendering supply of goods and services in country, subject to VAT taxation, to be able to report and pay the tax. Modifications and amendments to the Law also envisage increase of the VAT refund threshold and changes to the requirements for VAT refund to foreign diplomatic or consular representative offices. Moreover, the respective Law also envisages increase of the VAT rate (from 5% to 10%) on foodstuff for human consumption other than basic foodstuff for human consumption, reduction of VAT rate on supply of digital textbooks and menstrual hygiene products for the purpose of advancing the digitalisation process and supporting the maintenance of hygiene, and it closely regulates the provisions pertaining to issuance of a VAT number and registration, and prescribes a special type of tax base.

Under the modifications and amendments to the **Law on Excises** ("Official Gazette of the Republic of North Macedonia", no. 209/23 dated 5th October 2023), the respective Law is further harmonised with the EU Acquis in the field of excises. The Law envisages alignment of the minimum overall excise duty on cigarettes with the minimum excise duty in the EU, as per Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco. Thereby, step-by-step process of harmonising the minimum excise duty on manufactured tobacco is envisaged by introducing a new Excise Calendar, by which excise duty on cigarettes and other tobacco products, as well as e-liquid, will be aligned with the respective Directive by 2030 inclusive. Furthermore, the Law regulates closely the excise duty on heated herbal products for smoking, regardless of whether they contain nicotine or not. The Law also envisages regulating more closely the legal provisions pertaining to the procedure for denaturing ethyl alcohol and its use, as well as facilitating the procedure for issuing approval for a preferential user in line with Council Directive (EU) 2020/1151 of 29 July 2020 amending Directive 92/83/EEC on the harmonisation of the structures of excise duties on alcohol and alcoholic beverages. In the area of misdemeanour procedures, excise duty-related misdemeanours have been revised and classified per the severity of the misdemeanour. The reform activities, as regards the Law on Excises, are projected to generate additional budget revenues, as follows: Denar 797 million in the second year, Denar 883 million in the third year and Denar 782 million in the fourth year of the reform implementation.

With respect to taxation of motor vehicles, on 17th October 2023, the Government adopted the Decree on Modifications and Amendments to the **Decree on the Manner of Assessing Motor Vehicles Tax and the Amounts Needed for Calculation of the Motor Vehicles Tax** ("Official Gazette of the Republic of North Macedonia", no. 220/23), envisaging increased coefficients of the environmental component for taxation of passenger motor vehicles falling in the category of the largest CO₂ polluters. For the purpose of assessing the environmental component of the motor vehicles tax, application of the new WLTP method (Worldwide Harmonised Light Vehicle Test Procedure), which complies with Regulation (EU) 2019/631 of the European Parliament and the Council of 17 April 2019, is envisaged alongside the existing NEDC method (New European Driving Cycle). Application of the WLTP method is geared towards implementing part of the environmental protection measures and the commitment to introducing "green taxation", incorporated in the Tax System Reform Strategy of the Republic of North Macedonia.

Table 5. Projections for Fiscal Implications from the Adopted Laws (Denar million)

| Type of Tax | 2023 | 2024 | 2025 |
|---------------------|-------|-------|-------|
| Personal Income Tax | 377 | 533 | 533 |
| CIT | - | 872 | 872 |
| VAT | 2,300 | 2,300 | 2,300 |
| Excise Duties | | 797 | 883 |
| Solidarity Tax | 4,700 | 0 | 0 |

Source: Ministry of Finance

The Law on Modifications and Amendments to the **Law on Public Revenue Office** (“Official Gazette of the Republic of North Macedonia”, no. 87/2023 dated 25th April 2022) stipulates provisions on digitalisation and exchange of acts and information for tax purposes among the institutions and between the tax authority and the taxpayer. Moreover, the adopted Law on Modifications and Amendments to the PRO Law prescribes/introduces an integrated tax information system (ITIS) and a working body in charge of its implementation, strengthens the provisions on exchange of data among the institutions and increased interoperability, also envisaging greater independence of the PRO Director in terms of the organisational setup of this tax authority. The Law envisages for the status of administrative servants to change to tax officers and new/enhanced requirements as regards employment at the tax authority, as well as certain wage and allowance increases for the tax officers as per the labour market conditions.

Under the modifications and amendments to the Law on Partial VAT Refund to Individuals, which entered into force in March 2023 (“Official Gazette of the Republic of North Macedonia”, no. 63), the amount of partial VAT refund to individuals has been increased and the model of declaring the highest amount of tax subject to refund has been changed, i.e. instead of Denar 12,000 tax base for a single quarter, the amount of VAT subject to refund to individuals has increased to Denar 2,100 per quarter. Moreover, the measure for partial VAT refund to individuals of 20% for Macedonian products and services and 10% for other goods and services continued to apply during this period, providing for additional income to each family, strengthening the purchasing power and having positive effect on increased consumption and VAT collection, as well as contributing to reduced tax evasion and informal economy.

In the course of 2022, Ministry of Finance informed the Government about the need to prepare and implement the **E-Invoicing and E-Fiscalisation Project**. In particular, to the end of increased efficiency and effectiveness and digitalisation of the tax processes, as well as reducing the informal economy by regularly monitoring the supply among the taxpayers and increased VAT control, both Ministry of Finance and PRO prepared draft E-Invoicing and E-Fiscalisation Project. However, the Project has not been implemented so far. The Project is planned to become operational as soon as possible, contributing substantially to reducing the tax burden on the taxpayers and speeding up and enhancing the conducting of tax audits. The goal is for the taxpayers to be given the opportunity to issue, transmit and receive invoices in a simplified manner. Moreover, better recording of and strengthened control over invoices will provide for efficiency of both the tax audits and the tax system, reducing the time for carrying out audits by the PRO.

In line with the adopted **2023 - 2027 Strategy on Formalisation of the Informal Economy** and related 2023 - 2025 Action Plan (September 2023), share of informal economy in the total economic activities in the country is expected to be reduced over the medium term, by reducing and eliminating the factors stimulating informal activities. All this will contribute to reducing both the number of unregistered business entities and the number of informally employed persons. To that end, by efficiently implementing the measures and the activities within the deadlines set in the Action Plan, informal economy is expected to be reduced to 26% of GDP by the end of 2027.

Table 6. Projections for the Current and the Next Five Years by Type of Tax (Denar million)

| Type of Tax | 2024 Supplementary Budget | 2025* | 2026* | 2027* | 2028* | 2029* |
|--|---------------------------------|--------|--------|---------|---------|---------|
| Personal Income Tax | 31,542 | 35,676 | 39,128 | 41,852 | 46,277 | 50,168 |
| CIT | 21,118 | 23,287 | 25,004 | 26,709 | 28,603 | 30,413 |
| VAT | 78,458 | 86,692 | 95,311 | 103,950 | 113,543 | 124,223 |
| Excise Duties (Core Budget and PDIF) | 29,837 | 31,388 | 33,251 | 35,120 | 38,029 | 41,449 |

| | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Customs Duties and Motor Vehicles Tax | 13,556 | 14,955 | 16,716 | 18,536 | 20,411 | 21,935 |
| Other Tax Revenues | 4,746 | 4,938 | 5,280 | 5,626 | 6,021 | 6,419 |
| Total | 179,257 | 196,936 | 214,690 | 231,792 | 252,884 | 274,606 |

Source: Ministry of Finance and MoF's projections (*)

Tax Expenditures Report

Tax expenditures are indirect expenditures incurred on the basis of tax and customs legal provisions, resulting in reduction of tax revenues or delay in their collection for the purpose of achieving certain economic or social goal. They can take the form of exceptions, exemptions, deductions, preferential tax rates, etc.

Preparation and submission of Report on the Impact of Tax Expenditures on the Inflows for 2025 is an obligation stipulated under the Organic Budget Law. The Report is to be submitted to the Parliament of the Republic of North Macedonia annually, as a document accompanying the Annual Financial Statement, reporting on the State Budget execution for the previous budget year. The Table below outlines the total tax expenditures on the basis of PIT, CIT, VAT, duties, assessed and estimated for the period 2022 - 2029.

Table 7. Tax Expenditures by Type of Tax (Denar million)

| Type of Tax | 2022 | 2023* | 2024* | 2025* | 2026* | 2027* | 2028* | 2029* |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Personal Income Tax | 663 | 757 | 876 | 991 | 1,087 | 1,163 | 1,286 | 1,394 |
| CIT | 4,469 | 4,795 | 5,982 | 6,596 | 7,083 | 7,566 | 8,102 | 8,615 |
| VAT | 32,330 | 34,961 | 39,166 | 43,276 | 47,579 | 51,891 | 56,680 | 62,010 |
| Total | 37,461 | 40,513 | 46,024 | 50,863 | 55,749 | 60,619 | 66,068 | 72,019 |

Source: Ministry of Finance and MoF's projections (*)

To the end of reducing the tax expenditures, latest amendments to the VAT Law ("Official Gazette of the Republic of North Macedonia", no. 199/23) stipulate for the VAT tax rate to be increased from 5% to 10% for foodstuff for human consumption other than basic foodstuff for human consumption.

Table 8. Types of Taxes with Deviations

| Type of tax | 2024 | 2025 | | | | 2026 | | | | 2027 | | | | 2028 | | | | 2029 |
|--|----------------|------------------------------|----------------------|--------------------|-------------|------------------------------|----------------------|--------------------|-------------|------------------------------|----------------------|--------------------|-------------|------------------------------|----------------------|--------------------|-------------|----------------------|
| | Budget 2024 | Revised Fiscal Strategy 2023 | Fiscal Strategy 2024 | Absolute deviation | Deviation % | Revised Fiscal Strategy 2023 | Fiscal Strategy 2024 | Absolute deviation | Deviation % | Revised Fiscal Strategy 2023 | Fiscal Strategy 2024 | Absolute deviation | Deviation % | Revised Fiscal Strategy 2023 | Fiscal Strategy 2024 | Absolute deviation | Deviation % | Fiscal Strategy 2024 |
| Personal income tax | 31,542 | 32,983 | 35,676 | 2,694 | 8.2% | 35,291 | 39,128 | 3,837 | 10.9% | 38,291 | 41,852 | 3,561 | 9.3% | 41,546 | 46,277 | 4,731 | 11.4% | 50,168 |
| Corporate tax | 21,118 | 20,652 | 23,287 | 2,635 | 12.8% | 22,098 | 25,004 | 2,906 | 13.2% | 23,976 | 26,709 | 2,733 | 11.4% | 26,014 | 28,603 | 2,589 | 10.0% | 30,413 |
| VAT | 78,458 | 85,540 | 86,692 | 1,152 | 1.3% | 91,528 | 95,311 | 3,783 | 4.1% | 99,308 | 103,949 | 4,641 | 4.7% | 107,749 | 113,543 | 5,794 | 5.4% | 124,222 |
| Excise (Basic Budget and Pension and insurance fund) | 29,837 | 32,827 | 31,388 | -1,439 | -4.4% | 35,125 | 33,251 | -1,874 | -5.3% | 38,111 | 35,120 | -2,991 | -7.8% | 41,350 | 38,029 | -3,321 | -8.0% | 41,449 |
| Customs duties and Motor vehicle Tax | 13,556 | 12,852 | 14,955 | 2,103 | 16.4% | 13,752 | 16,716 | 2,964 | 21.6% | 14,920 | 18,536 | 3,616 | 24.2% | 16,189 | 20,411 | 4,222 | 26.1% | 21,935 |
| Other tax | 4,746 | 3,897 | 4,938 | 1,041 | 26.7% | 4,169 | 5,280 | 1,111 | 26.6% | 4,524 | 5,626 | 1,102 | 24.4% | 4,908 | 6,021 | 1,113 | 22.7% | 6,419 |
| Total | 179,257 | 188,751 | 196,936 | 8,186 | 4.3% | 201,963 | 214,690 | 12,727 | 6.3% | 219,130 | 231,792 | 12,662 | 5.8% | 237,756 | 252,884 | 15,128 | 6.4% | 274,604 |

Source: Ministry of finance

Changes in the projections in relation to the 2023 Revised Fiscal Strategy stem from the new macroeconomic indicators taken into account when preparing the projections. At the same time, new projections for the amounts of tax revenues collected on different basis are also based on the actual tax revenues generated from the beginning of the current year. Thereby, they also incorporate the assessed effects from the amendments made to the tax laws, described in more details in the tax policy section.

With respect to the tax policy, as per the **2024 - 2028 Work Programme of the Government**, several reforms in the tax area and increasing of both efficiency and effectiveness of the tax administration are envisaged, all to the end of successfully carrying out the tax procedures.

Modifications and amendments to the Law on Tax Procedure, pertaining to simplifying and accelerating the process of tax assessment and collection and introducing the integrated tax information system, would provide for a more efficient tax collection and reduction of the bureaucratic burden on the taxpayers, so as for both the taxpayers and the tax authority to assess and collect the tax liabilities efficiently.

Digitalisation of tax procedures is one of the main objectives of the tax reform process, with the goal being to use the resources utterly and facilitate the process of paying taxes. Introduction of **e-invoicing** is one of the first activities planned to be undertaken in the coming period, aimed at carrying out tax audit in a more efficient manner and saving the tax administration resources, as well as saving time and effort of the taxpayers. E-Invoicing and E-Fiscalisation Project would be crucial for easier detecting and combating informal economy, i.e. closely monitoring the supply and payment of taxes by the taxpayers.

Combating the informal economy will be also focused on strengthening public administration capacities for detecting, monitoring and addressing informal economy via special tools; enhancing the legal regulation and the efficiency in its implementation; improving the business environment and creating a stimulative framework for formalising the informal economy and increasing the efficiency of the inspection services and the sanctions and fines system, to be monitored through greater digitalisation of all administrative processes and procedures.

On the other hand, efforts will be also dedicated to strengthening the awareness of informal economy and enhancing tax morale and trust in the institutions; increasing predictability when preparing legal solutions, policies and measures and strengthening transparency, accountability and integrity at all government levels.

With respect to tax revenues, adhering to the Government's initiative to base economic growth on investments, the objective is to increase the share of direct taxes in the total tax revenues, a distinctive feature of the advanced economies.

Moreover, the tax policy envisages more efficient controls as regards the **transfer prices**, as well as enhanced and regular monitoring of the "arm's length" principle at taxpayers in cases of transactions with associated parties. Furthermore, consolidation of revenues at taxpayers is also envisaged to be regulated more closely.

As regards international taxation, it is planned to adopt **draft Law on Administrative Cooperation for Tax Purposes**, aimed at efficiently exchanging information between tax authorities, all to the end of carrying out more efficient tax audits in terms of international taxation so as to avoid double taxation or double exemption. Respective draft Law would also be basis for implementing the global minimum corporate tax rate (Pillar 2) for taxation of multinational corporations meeting the requirements therefor.

Harmonisation of the **legal framework pertaining to VAT** with the Council Directive on the common system of value added tax and its Implementing Regulations will continue in the coming period as well. The objective is to achieve greater compliance and create a broader tax base for tax revenue collection. VAT regulations in the Republic of North Macedonia are fully compliant with the VAT Directive as regards the tax rates and partially compliant with the respective Directive as a whole. Moreover, as per the Government Programme, more efficient, yet safe, manner of tax credit refund is envisaged through enhanced control mechanisms and risk analysis.

With respect to **direct taxes**, the tax policy envisages certain tax incentives aimed at boosting both the employees' and the businesses' productivity, as well as improving the demographic image of the country. It is envisaged for the **treatment of recognised expenditures for tax purposes regarding the expenditures for voluntary life insurance premium paid** to be reinstalled. **It is also planned for PIT to be refunded to mothers of newborns, with the duration of this measure depending on the number of newborns (first, second, third child, etc.).** Moreover, it is envisaged for the companies employing mothers of three or more children to be exempted from paying health insurance contributions and unemployment insurance contributions and PIT for a period of three years as of the date of employment, with an obligation for the employer to retain the mothers at the workplace for as many years as the measure was applied.

Negotiations for text alignment and initialing of the **Agreements on Avoidance of Double Taxation and Protection of Fiscal Evasion** with respect to taxes on income are envisaged to continue in the coming period.

Table 9. 2022-2029 Budget of the Republic of North Macedonia (Denar million)

| | 2022 Annual Report | 2023 Annual Report | 2024 | 2025* | 2026* | 2027* | 2028* | 2029* |
|---|--------------------------|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total revenues | 243,085 | 277,129 | 318,151 | 348,553 | 376,121 | 405,219 | 437,230 | 471,785 |
| Tax revenues and contributions | 220,186 | 250,355 | 284,469 | 311,134 | 339,537 | 367,211 | 399,772 | 433,936 |
| Tax revenues | 142,567 | 157,733 | 179,257 | 196,539 | 214,690 | 231,792 | 252,884 | 274,606 |
| Contributions | 77,619 | 92,622 | 105,212 | 114,595 | 124,847 | 135,419 | 146,888 | 159,330 |
| Non-tax revenues | 17,189 | 16,866 | 22,541 | 24,520 | 24,228 | 24,778 | 24,228 | 24,619 |
| Capital revenues | 2,273 | 2,071 | 3,240 | 3,510 | 3,530 | 3,730 | 3,730 | 3,730 |
| Donations | 3,437 | 7,836 | 7,900 | 9,389 | 8,826 | 9,500 | 9,500 | 9,500 |
| Total expenditures | 278,597 | 318,539 | 362,816 | 387,923 | 413,146 | 439,274 | 473,630 | 508,311 |
| Current expenditures | 249,960 | 275,015 | 318,118 | 342,672 | 364,759 | 386,413 | 413,643 | 443,009 |
| Wages and allowances | 32,159 | 36,877 | 44,537 | 49,585 | 53,294 | 56,560 | 59,925 | 63,327 |
| Goods and services | 21,001 | 21,117 | 25,509 | 26,797 | 26,612 | 28,512 | 30,012 | 33,112 |
| Transfer to LSUs | 23,365 | 27,459 | 30,787 | 33,297 | 36,292 | 39,509 | 43,527 | 48,603 |
| Subsidies and transfers | 32,536 | 27,754 | 29,858 | 26,115 | 28,655 | 30,155 | 37,155 | 42,155 |
| Social transfers | 131,758 | 148,867 | 169,794 | 187,544 | 198,533 | 208,145 | 218,069 | 227,732 |
| Interest payments | 9,140 | 12,941 | 17,632 | 19,333 | 21,373 | 23,532 | 24,955 | 28,080 |
| Domestic | 3,413 | 4,181 | 7,066 | 8,624 | 10,747 | 12,211 | 13,936 | 15,906 |
| Foreign | 5,727 | 8,760 | 10,566 | 10,709 | 10,626 | 11,321 | 11,019 | 12,174 |
| Capital expenditures | 28,637 | 43,524 | 44,698 | 45,251 | 48,387 | 52,861 | 59,987 | 65,302 |
| Budget balance | -35,512 | -41,410 | -44,666 | -39,370 | -37,025 | -34,055 | -36,400 | -36,526 |
| Primary budget balance | -26,372 | -28,469 | -27,033 | -20,037 | -15,652 | -10,523 | -11,445 | -8,446 |
| Total revenues, % of GDP | 30.3 | 33.0 | 35.2 | 35.8 | 36.0 | 36.1 | 36.1 | 36.2 |
| Total expenditures, % of GDP | 34.7 | 37.9 | 40.1 | 39.8 | 39.5 | 39.1 | 39.1 | 39.1 |
| Budget balance (as % of GDP) | -4.4 | -4.9 | -4.9 | -4.0 | -3.5 | -3.0 | -3.0 | -2.8 |
| Primary budget balance (as % of GDP) | -3.3 | -3.4 | -3.0 | -2.1 | -1.5 | -0.9 | -0.9 | -0.6 |

2.4.2 Expenditures

Budget expenditures in the following medium-term period are based on the following assumptions:

- disciplined budget spending in order to increase budget discipline and responsibility,
- reduction of non-essential expenditures and significant improvement in efficiency and expediency in spending the budget funds,
- subsidizing citizens and business sector based on clearly defined budget support criteria,
- performance-based budgeting in order to improve on public expenditure efficiency and effectiveness through developing and monitoring of key performance indicators of budget policy implementation,
- redesigning budget structure and higher capital investments aimed at infrastructure project implementation, primarily for transport and utilities infrastructure construction, energy capacity investments, investments in educational, health and other public infrastructure, as well as
- strategic planning of major infrastructure projects.

The expenditure side of the State Budget in the following period is completely designed in support of strategic priorities implementation, revival of the economy, energy transition improvement, boosting sound economic growth, stable public finances, improvement of complete transport infrastructure and better living standard.

Quality medium-term budgeting is central to developing the medium-term fiscal framework. Thus, in the forthcoming period, it should be taken into account that the medium-term fiscal projections are based on a medium-term baseline scenario, which means that the determination of the fiscal projections results from the exercise of the competencies of the budget users under the applicable legislation, the existing obligations and tasks, resulting from

already approved multi-annual commitments, contracts, and on-going projects. Items beyond the baseline scenario, requiring additional financing, are showcased through new initiatives.

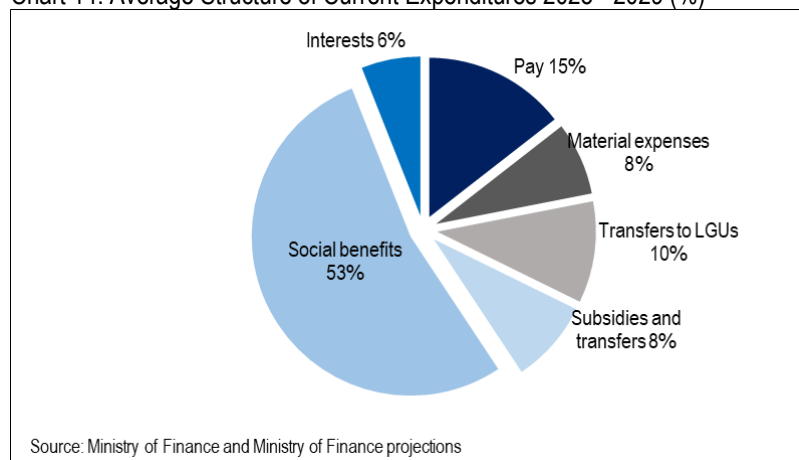
Average share of total expenditures of the State Budget in the 2025-2029 period accounts for around 39.3% of GDP. Budget expenditure projections for the forthcoming medium-term period are prepared on the basis of three key postulates:

- compliance of revenue projections with planned economic activities,
- total budget expenditure projections ensure continuous fiscal consolidation, and
- projected expenditures provide for regular and effective execution of all legal obligations.

When projecting the amount and the structure of current expenditures for the coming period (Chart 14), intended for regular wage payment to employees in the public sector, timely and regular payment of pensions and other social benefits, interest payments to foreign and domestic creditors, payment of agricultural subsidies, support to small- and medium-sized enterprises, as well as subsidising innovation activities, the following presumptions are taken into account:

- increase of efficiency, productivity, transparency and accountability of public sector employees, public administration optimisation through corresponding changes in its structure and quality and adjustment of employees' wages as per economic growth and the existing legal regulation;
- more efficient use of operating resources by improving the planning and the execution of operating expenditures,
- reducing the non-essential expenditures, as well as introducing spending standards,
- better quality services under the decentralised competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds,
- ensuring greater impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers;
- reducing poverty by properly targeting the use of social assistance and greater workforce participation in the labour market.

Chart 14. Average Structure of Current Expenditures 2025 - 2029 (%)

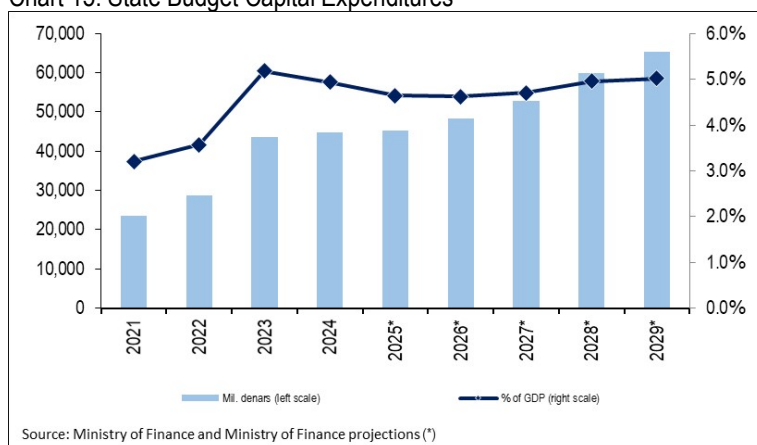


Medium-term fiscal projections include a strong development component, with a significant share of capital expenditures with over 5% in GDP on annual basis, and they represent key elements of the public finances.

In the period 2025-2029, fiscal policy will be aimed at creating preconditions for a new economic growth cycle, ensuring a substantial level of public investments, being basis for improvement of the economic perspectives and better quality of life for the citizens.

Therefore, substantial capital investments are projected (Chart 15) by allocating budget funds, including funds extended under loans from international financial institutions and bilateral creditors. The projected amounts speak of infrastructure projects picking up pace, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environmental protection and judiciary.

Chart 15. State Budget Capital Expenditures



For the purpose of ensuring sustainable and inclusive growth, as per the priorities under Work Programme of the Government of the Republic of North Macedonia, the Government will put the focus on capital investment implementation, exclusively intended for efficient projects, infrastructure and energy projects in support of the business sector, capital projects in the field of utilities and other local infrastructure, aimed at improving the living conditions of the citizens (improvement on the conditions in the health, education and social system, agriculture and environmental protection) strategic planning of major infrastructural projects, as well as scaled-up investments with a significantly improved structure and substantial amount of funds as capital transfers for municipalities.

Major investments are being projected under the Budget in the field of road infrastructure, aimed at planning, projecting, construction and expansion of Corridor 8 and Corridor 10d road sections.

As regards the road infrastructure, reconstruction of the eastern part of the Road Corridor 8, Rankovce – Kriva Palanka section, as well as construction of the western part of Road Corridor 8, Kichevo – Bukojchani motorway section and Kichevo – Ohrid motorway section, will continue to be financed with loans. As Construction of Skopje - Blace motorway section (border with Kosovo), improvement of road infrastructure of the municipalities in the Republic of North Macedonia through the Local Roads Connectivity Project, the National Roads Programme and the Western Balkans Trade and Transport Facilitation Project are also financed with loans.

Road infrastructure capital projects of relevance, to be financed through IPA 2 Programmes in the period 2020-2025, are construction of the road section Gradsko – Drenovo Interchange as part of the Road Corridor 10d, rehabilitation of regional road A2, Kumanovo – Stracin section (phase 1), construction of new expressway from Prilep to Lenishka River bridge and construction of a third lane on the road section from the Village of Belovodica to Mavrovo quarry; replacement of safety barriers, according to EN standards on highways, on 100 km of Corridor 10; procurement and installation of new signalling at railway level crossings, as well as implementation of measures to improve road safety along selected road sections.

As regards the railway infrastructure, financing of both phases of construction and rehabilitation of the eastern part of the Corridor 8 railway, railway sections Kumanovo-Beljakovce-Kriva Palanka, whereby an amount of EUR 68.5 million grant funds through WBIF (Western Balkans Investment Framework) were provided for the second phase. Construction of Rail Joint Border Station – Tabanovce with accompanying facilities between the Republic of North Macedonia and the Republic of Serbia will commence as well, financed with a loan and WBIF grant (Western Balkans Investment Framework).

Regarding gasification, construction of national gas pipeline, in particular Skopje – Tetovo section, Gostivar-Kichevo section and Sveti Nikole – Veles section is envisaged, as well as construction of Gas Interconnection Pipelines between the Republic of North Macedonia and the Republic of Kosovo, between the Republic of North Macedonia and the Republic of Serbia, and between the Republic of North Macedonia and the Republic of Greece.

Major planned projects in the field of municipal and utilities infrastructure are the Municipal Water Infrastructure North Macedonia and the implementation of the North Macedonia Public Sector Energy Efficiency Project.

Irrigation Programme North Macedonia and North Macedonia Agriculture Modernisation Project are major capital projects in the field of agriculture.

With respect to environment, in addition to the aforementioned major Skopje Wastewater Treatment Plant Project, North Macedonia Regional Solid Waste Projects plays a vital importance, by putting management systems in place, i.e. solid waste stations in the Southwest, Vardar, Pelagonija, Southeast and Polog regions.

With respect to wastewater collection and treatment infrastructure and integrated and financially self-sustainable waste management system meeting EU standards, major capital projects being financed via IPA2 Programmes, in the period 2020-2025, are the following: Skopje Sewage Network Rehabilitation and Expansion Project, Tetovo Wastewater Treatment Plant and Sewage Network Rehabilitation and Expansion Project, Kichevo Sewage Network Rehabilitation and Expansion Project, Bitola Wastewater Treatment Plant and Sewage Network Rehabilitation and Expansion Project, Eastern and Northeastern Regions Landfill Closure Project, with construction of a central waste management facility, a sorting plant, a Mechanical Biological Treatment (MBT) plant, a landfill, a composting plant and a green point in the Municipality of Sveti Nikole, construction of six local waste management facilities, each consisting of a transfer station, a composting plant and a green point for the Eastern and Northeastern Regions, support in establishing a regional waste management system, procurement of equipment for the Eastern Region, support and preparation of the necessary documentation for the procurement of water equipment for the municipalities of Radovish, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep, preparation of project documentation for improving wastewater collection and treatment infrastructure and water supply network in the Municipality of Arachinovo.

With respect to education, the Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools, funded with a CEB's loan and supported by a WBIF grant and co-financed by the state, is implemented, aimed at improving physical education and comprehensive learning conditions in the country, implementation of Primary Education Improvement Project will continue, being supported by a World Bank loan. With respect to higher education, reconstruction of student dormitories in the Republic of North Macedonia, aimed at improving accommodation and learning conditions for university students, is foreseen.

With respect to social protection, the implementation of the Social Insurance Administration Project will continue, as well as completion of the Social Services Improvement Project is planned, whereas Second Social Services Improvement Project will start. With respect to judiciary, activities on construction and reconstruction of Idrizovo Penitentiary will be carried out, all to the end of meeting the international and the European Prison Rules, in support of improved accommodation conditions for the prisoners and their enhanced protection.

As regards the fair access to high-quality inclusive education at all levels, reconstruction of public preschool institutions is one of the major capital projects to be financed via IPA 2 Programme, covering the 2020-2025 period.

As regards energy infrastructure, projects envisaged to be financed are those implemented by JSC Power Plants of North Macedonia (AD ESM) and JSC for Electricity Transmission and Power System Control (AD MEPSO), such as: Wind Park Boganci – Phase 2, District Heating System Bitola, District Heating System Bitola, Elbasan (AL) – Bitola (MK) 400kV Transmission Line, Photovoltaic Power Plant Oslomej, ESM Solar PV Transition (Photovoltaic Power Plant Oslomej 2 and Photovoltaic Power Plant Bitola), as well as Rehabilitation of Hydroelectric Power Plants Programme.

With respect to public finance reforms, improvement of fiscal framework, strengthening the process of Budget planning and execution, improvement of revenue collection, strengthening the public procurement system, internal and external control and transparent reporting, Building Effective, Transparent and Accountable Public Financial Management Institutions Project, is to be implemented.

During the past period, to the end of supporting the private sector and providing fresh capital for the need thereof, six EIB credit lines, extended through Development Bank of North Macedonia, with the total amount of EUR 550 million, were provided and implemented. In this segment, implementation of the seventh credit line amounting to EUR 100 million will commence, being intended for financing Project for Financing Small- and Medium-Sized Enterprises, Mid-Cap Companies and Green Transition, in line with the economic measures of the Government, aimed at protecting the consumers and companies against the energy crisis.

Table 10. Overview of Loan-Funded Projects

| Project | Financed by | Loan Amount (EUR) |
|--|-------------------|-------------------|
| Western Balkans Trade and Transport Facilitation Project | MBRD - WB | 26,200,000 |
| Local Roads Connectivity Project | MBRD - WB | 33,000,000 |
| | MBRD - WB | 37,000,000 |
| Skopje Wastewater Treatment Plant Project | EIB | 68,000,000 |
| | EBRD | 58,000,000 |
| | WBIF Grant | 68,558,824 |
| North Macedonia's Municipal Water Infrastructure Improvement | Council of Europe | 50,000,000 |

| Project | Development Bank | |
|--|------------------------------------|-------------|
| Regional Solid Waste Project | EBRD | 55,000,000 |
| | SECO | 5,000,000 |
| | WBIF Grant | 22,562,513 |
| Second Municipal Service Improvement Project | World Bank | 25,000,000 |
| Public Sector Energy Efficiency Project | World Bank | 25,000,000 |
| Social Services Improvement Project | World Bank | 28,700,000 |
| Second Social Services Improvement Project | World Bank | 27,500,000 |
| Social Insurance Administration Project | World Bank | 13,800,000 |
| Agriculture Modernisation Project | World Bank | 46,000,000 |
| North Macedonia's Irrigation Programme | KfW | 80,000,000 |
| Reconstruction of Penitentiary Institutions | Council of Europe Development Bank | 46,000,000 |
| Primary Education Improvement Project | World Bank | 21,500,000 |
| Building Effective, Transparent and Accountable Public Financial Management Institutions Project | World Bank | 20,000,000 |
| Energy Efficient Rehabilitation of Student Dormitories in North Macedonia | KfW | 20,000,000 |
| Rehabilitation of the Eastern Part of Rail Corridor 8 – Phase 1 (Kumanovo – Beljakovce Section) | EBRD | 46,400,000 |
| Rail Corridor 8 - Phase 2 (Eastern Section of Rail Corridor 8 - Beljakovce - Kriva Palanka) | EBRD | 145,000,000 |
| Rail Joint Border Crossing - Tabanovce Project | EBRD | 5,000,000 |

2.4.3 State Budget Deficit and Its Financing

Projected deficit, as well as debt repayments, will be financed through foreign and domestic borrowing (Table 11). As regards financing the budget deficits, in the period 2025-2029, the state is expected to borrow abroad, i.e. foreign borrowing is planned to be in the form of issuing debt securities on the international capital market, disbursements under loans extended by foreign financial institutions under favourable terms and conditions and credit lines intended for financing certain projects. Thereby, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic market will be made in the form of issuance of government securities or domestic loans, thus providing for additional financing under favourable terms and conditions. For the purpose of optimising the payments and reducing the refinancing risk, Ministry of Finance will continue issuing government securities with longer maturities, thus reducing the debt refinancing risk. To the end of efficiently managing the public debt, over the medium term, Ministry of Finance will also take into account the possibility for early repayment of part of the debt, i.e. determining more favourable debt maturity, currency and interest structure.

Table 11: Deficit Financing

| | 2022 | 2023 | 2024 | 2025* | 2026* | 2027* | 2028* | 2029* |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Budget balance | -35,511 | -41,410 | -44,666 | -39,370 | -37,023 | -34,050 | -36,399 | -36,525 |
| Deficit financing | 35,511 | 41,410 | 44,666 | 39,370 | 37,023 | 34,050 | 36,399 | 36,525 |
| Inflows | 46,869 | 84,998 | 83,727 | 105,562 | 104,227 | 100,724 | 119,783 | 75,395 |
| Domestic sources | 15,587 | 37,431 | 55,638 | 54,311 | 37,086 | 50,320 | 55,320 | 39,391 |
| Foreign sources | 24,895 | 61,855 | 48,486 | 37,925 | 53,800 | 54,200 | 61,526 | 43,100 |
| Deposits ("-" is account accumulation) | 6,387 | -14,288 | -20,397 | 13,326 | 13,341 | -3,796 | 2,937 | -7,096 |
| Outflows | 11,358 | 43,588 | 39,061 | 66,192 | 67,204 | 66,674 | 83,384 | 38,870 |
| Repayment after domestic borrowing | 5,571 | 7,474 | 18,727 | 16,901 | 11,976 | 19,060 | 20,985 | 20,431 |
| Repayment after foreign borrowing | 5,787 | 36,114 | 20,334 | 49,291 | 55,228 | 47,614 | 62,399 | 18,439 |
| Memorandum: | | | | | | | | |
| Net domestic borrowing | 10,016 | 29,957 | 36,911 | 37,410 | 25,110 | 31,260 | 34,335 | 18,960 |
| Net foreign borrowing | 19,108 | 25,741 | 28,152 | -11,366 | -1,428 | 6,586 | -873 | 24,661 |

Source: Ministry of Finance and Ministry of Finance's Projections(*)

2.4.4 General Government Budget (Consolidated Budget of the Republic of North Macedonia and Municipal Budget)

General Government Budget incorporates consolidated data on the Budget of the Republic of North Macedonia and the budgets of the municipalities. Budget of the Republic of North Macedonia comprises the central budget (core budget, self-financing activities, funds on the basis of donations and loan funds) and the budgets of the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Service Agency.

In line with the gradual fiscal consolidation, General Government Budget deficit will reduce from 4.0% of GDP in 2025 to 2.8% of GDP in 2029.

Table 12. General Government Budget

| | Denar million | | | | | | | | % of GDP | | | | | | | |
|---|---------------|---------|---------|---------|---------|---------|---------|---------|----------|------|------|------|------|------|------|------|
| | 2022 | 2023 | 2024 | 2025* | 2026* | 2027* | 2028* | 2029* | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Central budget | | | | | | | | | | | | | | | | |
| Income | 124,185 | 142,731 | 162,353 | 172,718 | 191,274 | 211,695 | 233,414 | 258,710 | 15.5 | 17.0 | 18.0 | 17.7 | 18.3 | 18.8 | 19.3 | 19.9 |
| Expenditures | 157,700 | 181,848 | 205,712 | 210,467 | 226,538 | 244,263 | 269,803 | 295,226 | 19.6 | 21.6 | 22.7 | 21.6 | 21.7 | 21.7 | 22.3 | 22.7 |
| Budget balance | -33,515 | -39,117 | -43,359 | -37,749 | -35,264 | -32,568 | -36,389 | -36,516 | -4.2 | -4.7 | -4.8 | -3.9 | -3.4 | -2.9 | -3.0 | -2.8 |
| Budget funds | | | | | | | | | | | | | | | | |
| Income | 94,795 | 104,051 | 116,435 | 137,598 | 143,931 | 149,877 | 156,578 | 161,182 | 11.8 | 12.4 | 12.9 | 14.1 | 13.8 | 13.3 | 12.9 | 12.4 |
| Expenditures | 96,044 | 106,371 | 119,748 | 139,220 | 145,691 | 151,363 | 156,589 | 161,191 | 12.0 | 12.7 | 13.2 | 14.3 | 13.9 | 13.5 | 12.9 | 12.4 |
| Budget balance | -1,249 | -2,320 | -3,313 | -1,622 | -1,760 | -1,486 | -11 | -9 | -0.2 | -0.3 | -0.4 | -0.2 | -0.2 | -0.1 | 0.0 | 0.0 |
| RSM budget (Central budget and funds) | | | | | | | | | | | | | | | | |
| Income | 218,980 | 246,782 | 278,788 | 310,316 | 335,205 | 361,572 | 389,992 | 419,892 | 27.3 | 29.4 | 30.8 | 31.9 | 32.1 | 32.2 | 32.2 | 32.3 |
| Expenditures | 253,744 | 288,219 | 325,460 | 349,687 | 372,229 | 395,626 | 426,392 | 456,417 | 31.6 | 34.3 | 36.0 | 35.9 | 35.6 | 35.2 | 35.2 | 35.1 |
| Budget balance | -34,764 | -41,437 | -46,672 | -39,371 | -37,024 | -34,054 | -36,400 | -36,525 | -4.3 | -4.9 | -5.2 | -4.0 | -3.5 | -3.0 | -3.0 | -2.8 |
| Local government budget | | | | | | | | | | | | | | | | |
| Income | 38,716 | 47,375 | 54,605 | 58,031 | 61,497 | 65,158 | 69,709 | 75,364 | 4.8 | 5.6 | 6.0 | 6.0 | 5.9 | 5.8 | 5.8 | 5.8 |
| Expenditures | 38,911 | 44,309 | 54,605 | 58,031 | 61,497 | 65,158 | 69,709 | 75,364 | 4.8 | 5.3 | 6.0 | 6.0 | 5.9 | 5.8 | 5.8 | 5.8 |
| Budget balance | -195 | 3,066 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Budget of the general government (Consolidated Budget of RSM and | | | | | | | | | | | | | | | | |
| Income | 257,696 | 294,157 | 333,394 | 368,348 | 396,702 | 426,730 | 459,701 | 495,256 | 32.1 | 35.0 | 36.9 | 37.8 | 37.9 | 38.0 | 38.0 | 38.0 |
| Expenditures | 292,654 | 332,528 | 380,064 | 407,717 | 433,725 | 460,783 | 496,100 | 531,780 | 36.4 | 39.6 | 42.0 | 41.9 | 41.5 | 41.0 | 41.0 | 40.9 |
| Budget balance | -34,959 | -38,371 | -46,670 | -39,369 | -37,023 | -34,053 | -36,399 | -36,524 | -4.4 | -4.6 | -5.2 | -4.0 | -3.5 | -3.0 | -3.0 | -2.8 |

Source: Ministry of Finance and Ministry of Finance projections (*)

2.4.5 Sectoral Approach to Expenditures

Process of creating policies is put into function by adopting the strategic priorities of the Government for the respective year and the preparation of the annual programme. Policies in each area are precisely defined in the three-year strategic plans and annual programmes of the ministries, accompanied by appropriate action plans. The planning process is on parallel and coordinated track with the process of planning financial resource for implementation of policies over the medium term.

The programme approach implies presenting all activities of budget users through appropriate programmes and sub-programmes, defined as a set of related activities aimed at achieving the same, common objective.

The sectoral approach is a process in which the Government, through horizontal planning and institutional coordination, as well as optimal use of resources, acts in support of improving the existing situation within a specific area and, at the same time, through the coherence between costs and results, accomplishes its strategic priorities and creates conditions for more efficient operations of the institutions themselves.

The sectoral approach in this document is based on the Classification of the Functions of Government, developed by the Organisation for Economic Cooperation and Development and published by the United Nations Statistics Division.

GENERAL PUBLIC SERVICES

This segment incorporates activities and policies implemented pertaining to administration, operations of executive and legislative bodies and their support, public finance management, operations of diplomatic and consular missions, economic assistance, etc.

Clear and effective recommendations of the independent audit institution in the Republic of North Macedonia provide support to the state and other institutions in improving the management of public funds, thus contributing to greater accountability of the public funds/taxpayers' funds spending, thereby improving the quality of life of the citizens of the Republic of North Macedonia by delivering services adhering to the principles of reliability in rendering services, continuity and quality of service, transparency, availability, and universal service, protection of users and citizens.

The primary objective in the following medium-term period will be restoring the trust in state institutions, eliminating corruption and ensuring rule of law. By providing economic freedom to investors and creating fair conditions

for all business entities, prerequisites for a new economic growth cycle, fostered by stable public finances and supported by the competitive private sector and substantial investments in the field of innovations and information technology, will be created. Commitment to the EU integration process will be demonstrated by harmonising the policies with EU Standards.

Higher living standards for the citizens will be the Government's primary objective and top priority, which will be accomplished by wage increase in line with the economic growth, the strengthened revenue collection, the improved efficiency and expediency in public money spending with the major focus placed on capital expenditure execution, tackling public procurement corruption, implementing significant strategic investments in the field of infrastructure and energy, as well as ensuring public debt sustainability.

Informal economy reduction and higher revenue collection will contribute to higher budget revenues, maintaining low tax rates and tax exemptions, higher capital investments and incentives for the operations of the domestic private sector and the citizens.

Public service quality will be enhanced through the digital transformation of the public sector and taking activities pertaining to scaled-down state administration, by merging or abolishing certain state bodies.

Government will create predictable tax and regulatory environment through an inclusive regulatory change process in all fields vital for businesses and citizens, thus creating prerequisites for doing business. Digital transformation, innovative approach and new technology application will contribute to more convenient climate for taxpayers and tax officials, based on righteousness, cooperation, transparency and strengthened trust.

Boosted competitiveness of the domestic private sector will be achieved by continuing the financial support intended for investments and revising the requirements for extending such support, all to the end of extending higher amount of the financial support to export-oriented companies and companies operating in sectors with competitive advantage. A unique registry for state aid will also be introduced, aimed at preventing misuse of financial instruments for support and their double utilisation.

Implementing regulatory guillotine of the comprehensive regulations concerning the citizens and companies through a scanning process of laws and bylaws, procedures and operations, with proposals for abolishing and streamlining the redundant regulations. A digital registry of all parafiscal charges collected on central and local level will be prepared for their monitoring and control, whereas under the Official Gazette, an e-registry of laws and bylaws by fields will be compiled. The aforementioned activities and tools will significantly contribute to improvement of the business climate, streamlining bureaucracy and reducing corruption.

DEFENCE

Objective of the defence policy is achieving and protecting the national interests under the Constitution of the Republic of North Macedonia, the conceptual and the strategic documents for security and defence. Common values of the Alliance pertaining to collective defence, crisis management and cooperative security are also shared through the national interests. The defence policy of Republic of North Macedonia is fully aimed at achieving the basic national defence interests: protection of independence, territorial integrity and inviolability of the internationally recognised borders of the state, contribution to the establishment of peace, security and stability in the region, Europe and worldwide, as well as supporting civil society institutions under various situations or conditions of crisis, emergency and war.

By becoming full-fledged NATO member, Republic of North Macedonia achieved one of its most significant strategic goals, both in terms of defence and foreign policy. Moreover, remarkable progress has been made on the road to EU membership in anticipation of the start of accession talks. Development and promotion of good neighbourly relations and regional cooperation continue to be upheld as strategic and long-term objectives of the country's defence policy.

In order to support national security, the defence system of the Republic of North Macedonia is to constantly be in state of preparedness to perform the following defence missions:

- defence of the independence and the territorial integrity of the Republic of North Macedonia and NATO allies,
- strengthening regional and global security and stability by participating in international operations and missions, and
- supporting the civil authorities and the citizens.

Defence financing is one of the most important elements, contributing to the creation of prerequisites for successful strengthening and maintenance of the entire defence system. Moreover, in the past years, a lot of attention was especially paid to the obligation undertaken arising from NATO's commitment to invest in defence by allocating funds accounting for 2% of GDP and a minimum of 20% investment in equipping and modernisation, to be used for financing the defined objectives, tasks, activities and projects, the planned organisational and formational structure, the undertaken international obligations for participation in international operations and missions, the undertaken obligations of fulfilment of the accepted NATO capability targets and equipment and modernisation requirements.

Performance indicators

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Ministry of Defence Budget (% of GDP) | 0.98 | 1.19 | 1.37 | 1.57 | 1.77 | 1.85 | 2 |
| Equipping and modernisation | 11.84 | 15.39 | 18.23 | 23.63 | 31.81 | 30.53 | 29.33 |

The complementary long-term objectives for development of defence capabilities and capacities for the upcoming medium-term period, divided into three groups, are aimed at:

Restructuring and harmonisation:

- harmonising the priorities of the national defence planning with the priorities of NATO defence planning, in order to meet the requested NATO capability targets;
- advancement of the personnel management and talent management system, which will enable attracting, selecting, recruiting, retaining and engaging high-quality, qualified and motivated personnel with adequate professional and work-related competencies in the defence and the Army, and
- building a modern system for education and training of personnel in the defence and the Army, based on competencies, identified needs and enhanced integrity.

Modernisation:

- modernisation and equipping of the Army,
- revitalisation and functional consolidation of optimal locations of defence compounds, facilities, installations and infrastructure and transformation towards green defence,
- advancement of logistic planning and implementation at all levels, and
- upgrading of a communication information system to support management, leadership and control in defence and development of cyber defence capabilities.

Contribution:

- integration in the NATO political and military structure and interoperability in accordance with NATO standards and participation in collective defence, crisis management and cooperative security,
- providing a national support element capability to support the Army in operations abroad,
- provision of host nation support to NATO forces, and
- integrating the national air defence into the air defence system of the Alliance.

Performance indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Number of personnel serving abroad as MoD's representatives | 58 | 31 | 33 | 35 | 38 | 40 | 42 | 42 |
| Number of personnel participating in international missions and operations | 117 | 226 | 250 | 300 | 280 | 300 | 310 | 310 |
| Number of projects for construction, reconstruction, adaptation and modernisation of facilities and infrastructure | 20 | 15 | 17 | 22 | 23 | 25 | 25 | 25 |
| Number of men and women on vocational and professional trainings abroad | women 32 | women 35 | women 38 | women 42 | women 50 | women 55 | women 58 | women 60 |
| | men 130 | men 135 | men 145 | men 150 | men 155 | men 160 | men 165 | men 170 |
| Number of men and women on vocational and professional trainings in the country | women 172 | women 176 | women 181 | women 185 | women 190 | women 195 | women 202 | women 200 |
| | men 310 | men 313 | men 315 | men 318 | men 322 | men 325 | men 328 | men 300 |

PUBLIC ORDER AND PEACE

Police Affairs

Activities under this policy strive for a high degree of safety, security, protection of the freedoms and rights of citizens, and improvement of the quality of life in the Republic of North Macedonia. They are aimed at achieving of the objectives, as follows:

- implementing public security system,
- preventing forceful destruction of democratic institutions established under the Constitution of Republic of North Macedonia,
- protecting the life, the personal security and the property of citizens,
- preventing escalating national, racial, religious hatred and intolerance,
- preventing committing crimes and misdemeanours, detection and apprehension of perpetrators of crimes and undertaking other special prosecution measures against perpetrators of such crimes, stipulated by law,
- protecting and observing basic freedoms and rights of human beings and citizens, guaranteed under the Constitution, the laws and the ratified international agreements, and
- maintaining public order and peace in the country.

In the upcoming medium-term period, series of activities are planned, contributing to:

- implementation of activities defined in the 2020 - 2025 Strategy for Further Capacity Building for Crime Technology at Regional and Local Level,
- non-selective fight against organised crime and corruption, rule of law reforms and establishment of independent institutions,
- prevention of cross-border crime and illegal migration, and control of readmission, and exercise of the right to asylum,
- increasing the level of public safety, including road traffic safety,
- cooperation and establishment of common standards for cyber security, and

- support of international peacekeeping efforts by implementing activities pertaining to preparation of future NATO objectives.

Courts and Penitentiary Institutions

This functional area incorporates programme tasks and operational activities pertaining to: judiciary, public prosecution, state attorney, notary, enforcement agents, mediation, advocacy, free legal aid, inheritance, ownership, rights in rem and contracts and torts, international legal aid, execution of sanctions for criminal deeds and misdemeanours, organisation and management of penitentiary and correctional institutions, court expertise and super-expertise; criminal, misdemeanour, litigation, extrajudicial and administrative proceedings, as well as other matters regulated by law.

Priorities and planned activities are as follow:

- efficient, independent and professional judicial system,
- fight against corruption,
- exercising human rights,
- meeting EU membership criteria in the area of justice,
- ICT upgrading in the justice system, and
- penitentiary and correctional facilities - professionally organised and managed.

Performance Indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total number of beneficiaries of primary and secondary free legal aid | 3,561 | 3,500 | 4,000 | 4,100 | 4,500 | 5,000 | 6,000 | 6,500 |
| Increased number of applicants, men and women for free legal aid | Women 166, men 88 | Women 125, men 100 | Women 130, men 110 | Women 137, men 110 | Women 145, men 120 | Women 150, men 125 | Women 155, men 120 | Women 160, men 125 |
| Registered misdemeanours against public order and peace | 6,252 | 6,121 | 6,314 | 6,100 | 6,000 | 5,800 | 5,400 | 5,500 |
| Registered misdemeanours in the field of traffic | 112,151 | 211,591 | 176,558 | 145,000 | 140,200 | 130,500 | 120,000 | 115,000 |
| Prevented illegal crossing attempts | 27,394 | 13,954 | 5,874 | 5,500 | 5,200 | 5,100 | 4,800 | 4,200 |
| Envisioned and implemented trainings | women | women | women | women | women | women | women | women |
| | 754 | 404 | 369 | 420 | 440 | 470 | 500 | 520 |
| | men | men | men | men | men | men | men | men |
| | 189 | 1,781 | 1,400 | 1,500 | 1,550 | 1,600 | 1,650 | 1,700 |

ECONOMIC AFFAIRS

Agriculture, Forestry, Hunting and Fishing

Agriculture represents a significant segment in the country's development, impacting the total economic growth. For the purpose of both providing stability and basis for agricultural development and modern agriculture practice, series of activities are being carried out for natural resources' prudent utilisation in a sustainable way through measures supporting the development of agricultural and livestock primary agricultural production, by observing nature and environment protection principles; processing and marketing of agricultural products of both animal and plant origin; ensuring sustainable and economic development of rural areas; promoting hunting and fishing, providing protection for the health of animals and plants.

2023-2027 National Programme for Agriculture and Rural Development incorporates the following planned activities:

- stable quality food production,
- boosted competitiveness of agriculture sector,
- stable income of agricultural holdings,
- sustainable development of rural areas, and
- optimal utilisation of natural resources by observing the principles of nature and environmental protection.

The strategic goal is to boost the competitiveness of the agricultural sector on the open and dynamic market, while maintaining the development of rural areas via optimal use of the natural resources, i.e. constructing sustainable

agricultural and food sector, which will provide for generating adequate income for the farmers, which will be accomplished by fulfilling the specific objectives, as follows:

- boosted competitiveness and increase of farmers' income,
- introduction of new technologies and innovations, thus reducing the adverse climate change impact,
- development of rural areas and keeping the population therein, in particular youth population by investing in both infrastructure and job creation in the rural areas.

In order to ensure greater protection of human health, food safety, animal health care, their well-being, veterinary public health, and environmental protection from animal waste by adhering to the regulations aligned with the EU Standards, the system for control of safety and quality of food intended for human consumption and animal feed and veterinary public health is continuously being strengthened, accompanied by further harmonisation with EU policies in the field of food safety and veterinary public health.

The objective is to achieve a high level of animal health protection against communicable and other diseases, which implies monitoring and preventing emergence of new diseases in animals and zoonoses in humans in the country, adequately controlling and supervising the diseases present in the country with their gradual reduction, maintaining a system of control, supervision and readiness for suppression and eradication of particularly dangerous communicable diseases.

For the purpose of planning and managing fishing waters and fishing, management and use of fish and other aquatic organisms, aquaculture, financial assistance in the field of fishing, aquaculture, fish processing, technical support, as well as development of new markets, contributing to the protecting of the fish stocks of the Republic of North Macedonia, is planned within the existing annual programme.

Performance indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Export of agricultural products (in EUR million) | 713 | 771 | 783 | 818 | 853 | 888 | 923 | 942 |
| Women – owners of agricultural holdings (as per the Unique Registry of Agricultural Holdings) | 28,686 | 28,700 | 28,720 | 28,735 | 28,750 | 28,760 | 28,770 | 28,780 |

Energy and General Economic Affairs

Strategic priorities and goals in the field of energy are aimed at sustainable energy development of the country, efficient use of energy and energy resources, meeting the needs of society for both electricity and heating energy, natural gas and fuels, establishing cleaner and more efficient energy generation through rational use of conventional and renewable energy sources, and improving the management of natural resources. The goal is to ensure a reliable, safe and sustainable energy supply. At the same time, the country launched the energy transition process, by adopting the Just Transition Roadmap and Coal Transition Investment Plan, which instigated the Government to adopt a Decision on establishing a Just Transition Council, with ministers of the relevant ministries being its members, tasked with overseeing the process at the highest level.

In the upcoming medium-term period, country's energy security and just transition will be achieved through:

- increasing the share of renewables in the final energy consumption,
- protecting the environment and fostering energy efficiency,
- ensuring energy efficiency and stability,
- liberalising the electricity market and scaling up investments in the energy sector,
- increasing the use of natural gas and solar energy in households,
- integrating the electricity markets with the countries from the region and EU Member States, and
- implementing energy transition process.

In the next period, a set of measure adoption is foreseen, such as: direct financial assistance to most vulnerable categories, promotion of energy renewable sources and boosting energy efficiency in households.

Hence, the focus is to be on the following priority areas: limiting energy import dependency by diversifying energy supply, saving energy and promoting the use of local resources and renewable energy sources.

Gas supply diversification will be provided by constructing the National Gas Pipeline System in Republic of North Macedonia, aimed supplying the business sector, the public sector and the households with cheap and environmental-friendly energy, alongside reduction of greenhouse gas emissions to the atmosphere.

Activities in the field of economy and labour aimed at creating conditions for industry development, clustering and Macedonian companies' inclusion in the global supply chain network, developed entrepreneurship sector, integration into the European Single Market, creating employment measures and policies, improving of the labour

market and protecting workers' rights, developing hospitality industry by improving the standards of the hospitality industry services.

In the upcoming medium-term period, series of activities are planned, contributing to:

- support for development of small- and medium-size enterprises,
- dynamic entrepreneurship and innovation ecosystem,
- development and boosting of Macedonian economy competitiveness,
- improvement of consumers' protection,
- activities in support of increase in employment.

Performance Indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|------|------|------|------|------|------|------|------|
| Number of supported SMEs and unemployed persons – beneficiaries of voucher scheme consulting services | 39 | 39 | 45 | 45 | 45 | 45 | 45 | 45 |

Establishing, developing and promoting technological industrial development zones (TIDZ) is a significant tool in the economic growth strategies due to the possibility of economic development by attracting foreign and domestic capital, developing new technologies, their application in the domestic economy, boosting competitiveness and increasing employment.

Priorities in the upcoming medium-term period cover:

- concluding new agreements for foreign and domestic investments,
- boosted job creation,
- increased export and increased inflow of funds from the companies in TIDZ to the Budget of the Republic of North Macedonia.

For the purpose of fulfilling these priorities, Directorate for Technological Industrial Development Zones will concentrate on new investments, improvement and development of TIDZ's basic infrastructure.

Performance Indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|------|------|------|------|------|------|------|------|
| Number of new agreements for foreign and domestic investments | 10 | 10 | 14 | 10 | 12 | 12 | 12 | 12 |

Transport

As regards transport sector, projects and activities are being implemented, aimed at developing policies for ensuring an accessible, reliable and sustainable national and international transport system, quality urban and building infrastructure, and exercising supervision over the implementation of the laws falling within its competences. Development of construction activity and transport infrastructure is a driving force of the economic growth of every country, hence the commitment of the Government of the Republic of North Macedonia to finance their development, improvement and modernisation. Thus, the priorities in the field of transport are the following: improvement of the infrastructure network in the Republic of North Macedonia in its entirety, as well as improvement of all segments related to transportation - road, rail, air and inland navigation, as well as enhancing the residential and utility infrastructure. In order to accomplish these priorities, following activities are planned: construction of new road sections and rehabilitation of part of the existing ones, completion of road and railway sections of Corridors 8 and 10, creating conditions for efficient transport of passengers and goods, as well as rendering high-quality transportation services that ensure high level of safety, construction, i.e. reconstruction of water supply and wastewater treatment systems providing for better quality of life, especially in rural areas, thus improving the quality of life and the environmental protection. Local Self-Government Units take part in the implementation of these projects as well.

Digital Transformation

With respect to digital transformation, activities are being carried out, pertaining to service delivery for citizens and businesses, developing mechanisms for implementation of trending 5G technology and development of NGA infrastructure, construction and development of electronic communication infrastructure and services.

Public Administration

With respect to public administration, there are ongoing activities in support of effective, efficient and inclusive policy creation by having expert and professional depoliticised administration in place, via responsible, accountable and transparent operations of the respective institutions.

ENVIRONMENTAL PROTECTION

Implementation of policies in support of environment, climate action, spatial planning, as well as ensuring the conditions for sustainable development, waste management, protection of air, water, soil, flora and fauna, while providing monitoring to keep track of the situation regarding the environment, are activities incorporated in the environmental protection policy. The process of determining the strategic and the medium-term objectives, as well as adapting the existing or introducing new practices, are an additional input in the efforts aimed at improving the environment.

These policies are implemented at both national and local level, through adequate measures and activities implemented by different entities from the public and the private sectors so as to achieve the set goals aimed at improving the quality of surface and underground water and ensuring quality drinking water, protection and monitoring of air quality, monitoring and reduction of noise, waste management, protection of soils and prevention of erosion, prevention and reduction of emissions from the industry, protection and sustainable use of biological and regional diversity, and adequate management of protected areas, spatial planning with the aim of sustainable use of land and other natural and manmade resources, institutional strengthening and raising awareness of the importance of the environment for the quality of life and people's health. By implementing these measures, the commitment to development and implementation of effective environmental policies is demonstrated, guided by environmental, economic and political factors at national and international level and applying the principles of sustainable development.

In the following medium-term period, the following major projects will be implemented: construction of new water supply network in the Village of Slepche, Demir Hisar, river bed regulation on the river section between Village of Bojane to Village of Glumovo, Municipality of Saraj, water supply pressurised pipeline and drinking water reservoir in the Village of Tremnik, Municipality of Negotino, construction of the water supply system in the Village of Virche, Municipality of Delchevo, rehabilitation of Ratevo Dam, Municipality of Berovo, water-supply network construction on Bajram Shabani Street, Municipality of Chair, water supply (primary network, wells and pumps) in the Village of Merovo, Municipality of Zhelino, construction of a sewerage system/network/collector in many localities in the Municipality of Vrapchishte. The following projects will continue to be implemented in the next period as well: reconstruction of the water filtration station for drinking water in Berovo, Municipality of Berovo, reconstruction of the water-supply system in Bogdanci, Municipality of Bogdanci, regulation of part of Oboden Channel in the Locality Arachinovo, Municipality of Arachinovo, construction of a sewerage system in the Village of Mustafino, Municipality of Sveti Nikole, construction of a sewerage – sewerage network between Radozhda and Kalishta, Municipality of Struga, construction of waste water treatment plant for the City of Skopje, amounting to over EUR 197.2 million, financed with a loan in the amount of EUR 68 million extended by European Investment Bank (EIB), loan in the amount of EUR 58 million extended by European Bank for Reconstruction and Development, technical assistance grant in the amount of EUR 1,429,250, extended by EIB and EBRD support, as well as an investment grant of EUR 69,784,283 extended by WBIF. One of the major priorities, which also constitutes a national priority with respect to EU accession process, is the implementation of the Regional Solid Waste Project, to be financed with EBRD's loan in the amount of EUR 55 million, grant in the amount of EUR 5 million extended by the Switzerland's State Secretariat for Economic Affairs (SECO) and EUR 22.5 million WBIF's investment grant. The Project is expected to provide for establishment of regional waste management systems in five regions in the Republic of North Macedonia, which is an important step towards a sustainable solution for solid waste management services.

Furthermore, European Investment Bank (EIB) provided a loan in the amount of EUR 50 million for financing the construction of water supply systems, water supply networks, etc., in all municipalities in the Republic of North Macedonia.

Within the IPA Programme, implementation of IPA Project for Rehabilitation and Expansion of the Sewerage Network in the Municipality of Kichevo will continue, along with the start of the Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Bitola, Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Tetovo, establishment of regional waste management systems in the Eastern and Northeastern Region, etc.

Performance Indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Water-supply networks construction (in metre length) | 27,544 | 35,675 | 30,000 | 45,896 | 47,352 | 48,484 | 49,258 | 55,268 |
| Sewerage networks construction (in metre length) | 19,750 | 34,200 | 27,500 | 40,689 | 41,254 | 41,568 | 42,567 | 46,555 |
| Number of prepared survey reports for environment protection | 500 | 450 | 560 | 510 | 530 | 540 | 550 | 570 |

HEALTH

Health policy is aimed at improving the effectiveness of, and the level of citizens' satisfaction with, the functioning of the sector and improving the health services.

Priorities under this policy in the period 2025-2029 are as follows:

- care pertaining to citizens' health;
- maintaining stable health care system, and
- increasing both the volume and the accessibility of health care services.

Cornerstone of the health-care system in the Republic of North Macedonia is the primary health care oriented towards the individual, the family and the community, with an emphasis on preventive health care and meeting the majority of population's health needs.

Under this policy, activities aimed at improving the health-care infrastructure and the conditions for better health care of the population are being implemented. Investment activities are directed toward the purchase of medical equipment for the needs of the PHIs in the country, construction, reconstruction and extension of the PHI facilities, as well as implementation of the project - Construction of the Clinical Hospital in Shtip.

Within the preventive and curative health care, activities are undertaken with the aim of achieving better communication and providing quality health care services. Moreover, activities of the preventive programmes are aimed at:

- prevention of cardiovascular diseases,
- systematic examinations of pupils and students intended for complete prevention of deformities, detection of bad habits and detection of individual diseases among the entire school and student population,
- activities for organising and promoting blood donation,
- immunisation of the population through procurement of vaccines,
- activities related to early detection of persons with probable brucellosis,
- continuous procurement of medicines for tuberculosis patients and protection of the population against AIDS,
- active health care of mothers and children, and
- early detection of malignancies accomplished with the activities of gynaecologists to call for a PAP test and screening for cervical cancer in women, screening activities for both colon cancer and breast cancer.

Activities carried out within the curative programmes are aimed at:

- setting up free examination points in squares and rural areas, free examinations aimed at prevention of heat waves-related conditions within the framework of the Health For All Programme,
- health care for persons with mental disorders,
- supply of methadone and buprenorphine, as well as a treatment of persons with substance use disorder, covering the costs of patients on dialysis treatment, and activities pertaining to patients with haemophilia,
- procurement of drugs for the treatment of rare diseases, and
- procurement of insulin, insulin needles, glucagon, sugar measuring strips and pumps for continuous supply of insulin for insulin-dependent patients.

Health Insurance

Health Insurance Fund of North Macedonia is established for the purpose of implementing mandatory health insurance, as an institution performing activity of public interest and public authorisations stipulated by the respective Law.

Health Insurance Fund allocates funds for the primary health care, the network of health care institutions and financing the health care sector, based on prices of health care services. i.e. programmes and agreements for providing health care to insured persons.

Health Insurance Fund finances its operations from its own revenues (wage contributions) and transfers from the Central Budget.

Denar million

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total revenues | 38,711 | 42,650 | 48,979 | 53,369 | 56,429 | 59,538 | 62,851 | 66,389 |
| Revenues generated on the basis of wage contributions | 21,896 | 26,170 | 29,000 | 31,610 | 34,455 | 37,384 | 40,561 | 44,009 |
| Budget transfers | 7,570 | 7,035 | 7,460 | 7,270 | 6,931 | 6,536 | 6,078 | 5,551 |
| Other revenues | 9,245 | 9,445 | 12,519 | 14,489 | 15,043 | 15,618 | 16,212 | 16,829 |
| Percentage share of budget transfers in total revenues | 20 | 16 | 15 | 14 | 12 | 11 | 10 | 8 |
| Total expenditures | 38,719 | 43,018 | 48,186 | 52,394 | 56,429 | 59,538 | 62,851 | 66,389 |
| Health care protection | 33,913 | 37,722 | 41,945 | 45,916 | 49,514 | 52,580 | 55,849 | 59,342 |
| Sick leave benefits | 4,244 | 4,700 | 5,500 | 5,600 | 6,000 | 6,000 | 6,000 | 6,000 |
| Other revenues | 562 | 596 | 741 | 878 | 915 | 958 | 1,002 | 1,047 |

The table indicates the revenue growth throughout the years, with health insurance wage contributions, transfers from the Ministry of Social Policy, Demographics and Youth related to maternity leave and other non-tax revenues accounting for the most of the Fund's revenues. As regards revenues generated on the basis of wage contributions, they also include the health contributions for unemployed persons paid by the Employment Service Agency of Republic of North Macedonia, health contributions for beneficiaries of social assistance paid by the Ministry of Social Policy, Demographics and Youth, health contributions for pensioners paid by the Pension and Disability Insurance Fund and health contribution for uninsured persons paid by the Ministry of Health.

Public Health Institutions

The basic health services package is divided into the following categories: primary health care, specialist-consultative health care and hospital health care. As a purchaser of health services, the Fund signs contracts with health institutions for the type and the volume of health services.

Public Health Institutions' revenues include the revenues collected by the Fund, funds from health care programmes, their own revenues and donations.

Performance Indicators

| Output indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|-------|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of performed controls (control of contributions, co-payments and wages, sick leave, treatment abroad, control check-up in public health institutions, specialised hospitals, pharmacies and private doctor's offices. | 3,685 | 7,346 | 7,000 | 7,500 | 8,000 | 8,500 | 8,500 | 8,500 |
| Number of concluded agreements with private health institutions, public health institutions and pharmacies | 3,695 | 3,699 | 3,800 | 3,850 | 3,900 | 3,950 | 4,000 | 4,000 |
| Percentage share of private healthcare costs in the total healthcare costs of the country | 39% | 40% | Below 45% | Below 45% | Below 45% | Below 45% | Below 45% | Below 45% |

RECREATION, CULTURE AND RELIGION

Sports and Recreation Services

In the field of sports, activities are being implemented, related to development and popularisation of sports, by increasing the percentage of citizens who play sports, improving the quality of national and international sports, creating a system, wherein professional sports and sports results will be promoted, strengthening the quality of life, social interaction, personality development and a healthy lifestyle for as many citizens as possible, providing a high-

quality sports infrastructure, increasing the number of athletes and improving sports results, promoting gender equality in all areas of social life and including the gender perspective in the policy making and budget creation, as well as via inclusive inclusion of persons with disabilities in all segments of sports.

Culture-Related Services

As per the Law on Culture, culture covers three segments as follows: works, as a process of creating works of art, activities related to publication of works of art, as well as activities aimed at protecting and using the works. Hence, tasks and obligations arising from the prescribed specific competences are detected in the following areas:

- activities in the field of culture and arts;
- promotion of culture, cultural development and cultural policies;
- international cooperation and cooperation with UNESCO;
- cooperation with the EU institutions and integration of the European values;
- organisation, development and funding of culture activities;
- monitoring, analysing and proposing acts and measures for development and promotion of culture;
- protection, management and revitalisation of cultural heritage;
- exercising and protection of the copyright and the related rights;
- supervision by an entity in charge of culture activities and
- preparation of regulations and other acts in the field of culture.

Financing of the national interest in the field of culture is carried out pursuant to the Law on Culture, whereby the operations of the national institutions in the field of culture are financed and participation is taken in financing projects of national interest in the field of culture of other legal entities and natural persons in the following activities: publishing activity, library activity, music and theater, film, folklore, cultural events and visual arts, architecture and design, protection of cultural heritage, museum activities, international cooperation and EU integration.

Investments in the Field of Culture

Particular attention is paid to improving the working conditions of artists by building new facilities and investing in national institutions related to culture. Construction of the Turkish Theater in Skopje, the Theater and the Library in Tetovo are being financed, as well as the construction of the theater in Strumica, the reconstruction of the Culture Center in Kumanovo, the reconstruction of the Culture Center "ASNOM" in Gostivar, then reconstruction of the Culture Center "Beli Mugri" in Kochani, the reconstruction of the roof and the old part of the building of the National and University Library "Ss. Kliment Ohridski" in Skopje.

In the next period, investments will continue to be made, all to the end of improving the infrastructure in the field of culture, i.e. the reconstruction of the following facilities: Museum of the Republic of North Macedonia, the National Gallery of Macedonia, Culture Center "Anton Panov" in Strumica, Culture Center "Marko Cepenkov" in Prilep, Culture Center in Bitola and the National Theater in Bitola, reconstruction of the former "Partizan" cinema within the National Theater Bitola.

Religious and Other Community Services

As regards religion, the ongoing activities pertain to the legal status of churches, religious communities and religious groups, as well as the affairs referring to the relations between the state and churches, the religious communities and the religious groups. Actions upon various issues of relevance for the state, the religious communities and the religious freedoms and rights of citizens, actively contributing to the improvement of interfaith relations and fostering high standards of dialogue and respect.

Priority activities are aimed at active promotion of the cultural and religious values of the Republic of North Macedonia on the basis of permanent and constructive cooperation with the registered churches, the religious communities and the religious groups and state institutions, promotion of the cultural and religious values of the Republic of North Macedonia and promotion of the inter-confessional cooperation, protection of the principle of secularism, advanced religious freedoms and rights and international cooperation, and promoting the needs of the religious communities.

Priority objectives and activities for attaining the strategic priority for the upcoming medium-term period are the following:

- Promotion of cultural and religious value of the Republic of North Macedonia and promotion of inter-confessional cooperation;

- Ensured protection of the principle of secularism, promotion of religious freedoms and rights, as well as strengthened cooperation; promoting the needs of the religious communities and achieving close cooperation therewith.

Performance Indicators

| Output Indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|------|------|------|------|------|------|------|------|
| Number of carried out events and festivals in the field of publishing activity, music and theater folklore, and events by specific public calls | 25 | 22 | 24 | 25 | 26 | 26 | 26 | 26 |
| Scope of citizens engaged in sports activities | 16% | 16% | 16% | 17% | 17% | 17% | 18% | 18% |
| Number of implemented inter-disciplinary projects with gender component in support of improved status of the woman in the society and the number of women – applicants for projects | | 30 | 32 | 35 | 36 | 40 | 42 | 42 |

EDUCATION

Policies implemented by the Government of the Republic of North Macedonia as regards upbringing and education of all types and degrees are aimed at providing comprehensive, inclusive and integrated education focused on the participants in the upbringing and educational process, accompanied by modern programmes that provide for future generations to acquire knowledge, skills and competencies as per the needs of the democratic multicultural society, the labour market and the new challenges in the global scientific and technological environment.

2018-2025 Education Strategy of the Republic of North Macedonia is the basis of the activities implemented by the institutions in the Republic of North Macedonia in the field of education in the next medium-term period, with the existing conditions in the education system as a starting point, being aimed at their gradual improvement, as per the set priorities.

As regards this policy, a series of measures and activities are being implemented, pertaining to adult education, organisation, financing, development and promotion of education, upbringing and science, upbringing and education of children with special educational needs and children of workers temporary working or staying abroad, verification of professions and specialisation in education, improvement of high-school and university students' standard; technological development and innovation support, information technology and technical culture, development of digital skills and other activities related to education. Via monitoring, expert insight, research, promotion and development of the upbringing and educational activity in the field of preschool, primary, high-school and artistic, secondary vocational and post-secondary education, education for children with special educational needs and the adult education, upbringing and educational process of the pupils' dormitories, as well as the education of the children of the citizens of the Republic of North Macedonia abroad aimed at learning the mother tongue and culture, the educational system is being improved.

There are ongoing activities geared towards promoting the adult education, coordinating the cooperation with the international institutions and other organizations related to adult education, ensuring quality, particularly by setting standards and criteria for formal and informal adult education, validation of informal education and informal learning. Various types of student assessments are organised, also including the international tests (Programme for International Student Assessment – PISA, Trends in International Mathematics and Science Study -TIMSS), International Civic and Citizenship Study -ICSS, Progress in International Reading Literacy Study - PIRLS). The controls, the inspection surveillance, as well as the implementation of an integral evaluation provides for determining the observance of the legal regulations related to education and quality of the upbringing and educational process in all educational levels.

Activities in the medium-term period are aimed at accomplishing the following priorities:

- creating education in the best interest of children, which allows each student to reach their full potential;
- ensuring high-quality and inclusive higher education and improving the student standard;
- scaled-up investments and science development, research and innovations and
- improving the lifelong learning system.

For the purpose of accomplishing these priorities, activities will be undertaken so as to improve the contents and increase the accountability in the primary and secondary education, increase the scope of pupils and students and

improve the inclusion and inter-ethnic integration, improve the learning conditions and the accomplishments of pupils and students, invest and develop digital skills and critical thinking, harmonise the vocational education and training with the labour market needs, develop regional centers for vocational education and training, modernise the adult education system line with the lifelong learning prospects, develop new model for financing the primary and secondary education with a new formula for distribution of block grants with determined cost per pupil calculated on the basis of standards, optimise the school network, ensure quality and effectiveness of higher education as per the European sound practice, develop a new model for financing the higher education, improve the higher education accreditation and evaluation system, improve the student's life and increase the living standard of the youth population and implement measures leading to easier first employment thereof, as well as keep them in the country, improve the high-school and university students' standard, invest in better conditions in the students' dormitories, energy efficient reconstruction of student dormitories, increase the national funds for research activity, strengthen the international cooperation in the field of science, research and innovations, implement the Smart Specialisation Strategy, enhance the formal adult education system, develop the system for validation of non-formal and informal learning.

Performance Indicators

| Output Indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| Fully operational regional centers for vocational education and training | 0 | 3 | 5 | 5 | 6 | 7 | 8 | 8 |
| Enrolled students as regards in the regional centers for vocational education and training | 0 | 190 | 400 | 550 | 700 | 800 | 900 | 900 |
| Inclusion of the private sector (number of companies) in dual and secondary vocational education for the purpose of acquiring competences required on the labour market | 450 | 560 | 600 | 650 | 700 | 700 | 700 | 700 |
| Number of pupils included in workplace learning in secondary vocational education, 30% of whom should be girls | 1,500 | 1,800 | 2,000 | 2,300 | 2,600 | 3,000 | 3,100 | 3,200 |
| Number of programmes for validation of non-formal education and informal learning | 0 | 0 | 8 | 10 | 13 | 16 | 17 | 18 |
| Percentage of accredited public and private institutions of higher education, having established fully-operational quality assurance systems (internal and external), and publishing reports on quality assurance harmonised with ESG2015 | 50% | 50% | 60% | 70% | 80% | 90% | 95% | 100% |
| Increased amount for scientific and research activity as percentage of GDP | 0.40% | 0.40% | 0.4% | 0.50% | 0.60% | 0.70% | 0.80% | 1% |

SOCIAL PROTECTION

Policies related to labour and social affairs include expenditures for activities in the field of social policy, labour relations, employment and employability, pension and disability insurance; occupational protection; providing resources for the temporarily unemployed people; wages and living standard; social policy; humanitarian policy for the sake of harmonised economic and social development; protection of children and minors; protection of youth and women; protection of persons with development impairments and others.

Under this policy, activities are being implemented, which are geared towards improving the social services, whereby the investments are intended for construction, reconstruction and extension of the social protection facilities and the elderly homes, as well as realisation of projects financed with loans. Activities under the respective programmes are aimed at:

- providing social protection;
- activities aimed at protecting children and
- financing the programme activities of the national disability organisations, their unions and associations combatting family violence, the Red Cross of the Republic of North Macedonia etc.

Pension and Disability Insurance

Law on Pension and Disability Insurance governs the mandatory pension insurance of employees and individuals performing an activity, the bases of fully-funded pension insurance, as well as the special requirements under which certain categories of insureds exercise the rights to pension and disability insurance. Pension and Disability Insurance Fund finances the operations from own revenues and transfer from the Central Budget.

Pension system in the Republic of North Macedonia rests upon three pillars:

- First pillar - ongoing financing system, insurance based upon generational solidarity;
- Second pillar – mandatory fully-funded pension insurance and
- Third pillar – voluntary fully-funded pension insurance.

When projecting the pension-related expenditures, the existing legal regulations are taken into account, as per which the insured person acquires right to old-age pension when he/she turns 64 years of age (men), i.e.62 years of age (women) and at least 15 years of pensionable service (tenure).

| | Denar million | | | | | | | |
|--|---------------|--------|---------|---------|---------|---------|---------|---------|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Total revenues | 85.128 | 96.346 | 114.598 | 131.883 | 138.037 | 143.799 | 150.960 | 156.853 |
| Contributions from salaries | 50.594 | 60.510 | 69.807 | 76.090 | 82.938 | 89.987 | 97.636 | 105.935 |
| Transfers from the budget | 31.022 | 32.105 | 40.361 | 50.900 | 50.000 | 48.500 | 47.781 | 45.125 |
| Other revenues | 3.512 | 3.731 | 4.430 | 4.893 | 5.099 | 5.312 | 5.543 | 5.793 |
| Percentage of participation of transfers from the budget in total revenues | 36 | 33 | 35 | 39 | 36 | 34 | 32 | 29 |
| Expenditures | 87.608 | 99.465 | 116.958 | 134.479 | 139.797 | 145.284 | 150.970 | 156.863 |
| Pensions | 67.567 | 77.967 | 90.495 | 105.495 | 109.715 | 114.104 | 118.668 | 123.415 |
| Transitional Expenditures to Private Funds | 10.827 | 12.172 | 14.000 | 14.500 | 15.000 | 15.500 | 16.000 | 16.500 |
| Other Expenditures | 9.214 | 9.326 | 12.463 | 14.484 | 15.082 | 15.680 | 16.302 | 16.948 |

| | 2021 | 2022 | 2023 | 2024 |
|-----------------------|---------|---------|---------|---------|
| Pension beneficiaries | 328,570 | 334,816 | 336,977 | 339,692 |

Average pension in the Republic of North Macedonia by years:

| Year | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------|--------|--------|--------|--------|--------|
| Average pension | 15,483 | 15,876 | 17,727 | 20,195 | 21,213 |

Tables show the upward trend of the Fund's revenues, whereby revenues generated on the basis of wage contributions accounted for the most in the revenue structure (in 2024, they accounted for 60.9% of the total revenues, while Central Budget revenues accounted for 35% thereof). In addition, percentage reduction of the transfer from the Central Budget may be recorded, from 35% in 2024 to 29% in 2029.

As per the amendments to the Law on Pension and Disability Insurance in 2022 ("Official Gazette of the Republic of North Macedonia", no. 67/2022), the manner of pension indexation was changed i.e. old-age pension indexations was carried out as per the trends of the Consumer Price Index, accounting for 50% and the increase in the average wage paid to all employees in the Republic of North Macedonia, accounting for 50%. Pension is indexed on 1st March and 1st September every year as per the percentage obtained as a sum of the increase in the Consumer Price Index in the previous half of the year and the percentage increase in the average wage paid to all employees in the Republic of North Macedonia in the previous half of the year in relation to the previous half thereof.

As per the Law on Modifications and Amendments to the Law on Pension and Disability Insurance as of September 2024, on 1st September 2024, all types of pensions paid pursuant to this Law as of 31st August 2024 inclusive, have been increased by Denar 2,500 and on 1st March 2025, all types of pensions paid pursuant to this Law as of 28th February 2025 inclusive, have been increased by Denar 2,500.

Modifications and amendments to the Law on Pension and Disability Insurance are aimed at ensuring higher living standard, as well as better-quality life for pensioners.

Percentage of Pension Indexation

| Year | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------|------|------|------|------|------|------|------|------|
| 1st January | 0.82 | 1.69 | 0.7 | 0 | 1.2 | 2.9 | 8.4 | 5.3 |
| 1st July | 0.76 | 1.8 | 0.4 | 0.6 | 1.2 | 6.8 | 5.3 | |

Law on Mandatory Social Insurance Contributions governs the types of mandatory social insurance contributions, entities in charge of paying the contributions, entities in charge of calculating and paying the contributions, bases upon which contributions are paid, contribution rates, manner of calculation, payment deadlines as regards the contributions, control over the calculation and payment of contributions, as well as other issues of relevance for determining and paying the contributions.

Mandatory social insurance contributions include the following:

- pension and disability insurance on the basis of current payment;
- mandatory fully funded pension insurance;
- reduced services years of retirement;
- health insurance and
- unemployment insurance.

As regards the percentage allocated for payment of pension insurance contributions, it dropped throughout the years, i.e. from 21.2% in 2008 to 18.8% in 2020, also being valid in 2024.

| Contributions percentage | Mandatory pension and disability insurance | Mandatory health insurance | Employment | Additional health insurance | Total |
|--------------------------|--|----------------------------|------------|-----------------------------|-------|
| 2008 | 21,2 | 9,2 | 1,6 | 0,5 | 32,5 |
| 2009 | 19 | 7,5 | 1,4 | 0,5 | 28,4 |
| 2010-2018 | 18 | 7,3 | 1,2 | 0,5 | 27 |
| 2019 | 18,4 | 7,4 | 1,2 | 0,5 | 27,5 |
| 2020 | 18,8 | 7,5 | 1,2 | 0,5 | 28 |

Labour Market and Boosted Labour Force Competitiveness

Employment Service Agency of the Republic of North Macedonia, with its employment centers, develops and carries out services by boosting the labour force competitiveness and meeting the labour market, also by applying an individual approach to operating oriented towards the needs of the unemployed people and the employers. This Agency finances the operations from own revenues and transfer from the Central Budget.

Denar million

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| REVENUES | 3,795 | 4,181 | 4,117 | 4,454 | 4,807 | 5,188 | 5,600 | 6,045 |
| Total revenues on the basis of contributions | 3,214 | 3,842 | 4,087 | 4,414 | 4,767 | 5,148 | 5,560 | 6,005 |
| Transfers from the Budget | 555 | 319 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other revenues | 26 | 20 | 30 | 40 | 40 | 40 | 40 | 40 |
| EXPENDITURES | 3,303 | 2,987 | 3,856 | 4,454 | 4,807 | 5,189 | 5,600 | 6,045 |
| Expenditures | 2,961 | 2,671 | 3,479 | 4,020 | 4,355 | 4,717 | 5,108 | 5,532 |
| Pecuniary unemployment allowance | 1,282 | 1,191 | 1,426 | 1,550 | 1,600 | 1,650 | 1,650 | 1,650 |
| Active employment policies | 1,420 | 1,365 | 1,909 | 2,313 | 2,593 | 2,900 | 3,291 | 3,715 |
| Other expenditures | 259 | 316 | 377 | 434 | 452 | 472 | 492 | 513 |

Under the Operational Plan for Active Employment Programmes and Measures and Labour Market Services, programmes, measures and services are determined, which will provide for job creation, support for job creation and increased employability of the unemployed people, in particular the youth population, long-term unemployed people and beneficiaries of the right to pecuniary assistance and social protection, as well as support for unemployed people.

When implementing the employment programmes and measures, the following basic principles are observed:

- coping with the adverse effects and consequences on the labour market and the employment,
- principle of diversity and inclusiveness for all social categories in the private sector as per the principles of fair and adequate representation of ethnic, gender, religious, racial or any other vulnerable category of citizens, in line with the standards and practices of the United Nations and the International Labour Organisation and
- encouraging balanced regional development in line with the data from the Regional Development Bureau and the degree of development of planning regions in the Republic of North Macedonia.

One of the goals is reducing the long-term unemployment and dependence on guaranteed minimum income, by effectively including the vulnerable categories, in particular the beneficiaries of guaranteed minimum income on the labour market by their inclusion in specialised programmes and services focused on skill development.

Activities are also defined, which enable each unemployed person to be again part of the educational process (other than the regular educational process) or to be involved in any of the active employment measures or services, thus providing them with greater opportunities for employment or offering them adequate employment matching their education and skills. Activities include group and individual counselling, providing job search assistance services; motivational trainings; inclusion in any of the labour market integration measures (employment, education and training measures).

Performance Indicators

| Output Indicators | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of decisions prepared for ensuring the rights under pension and disability insurance | 31,749 | 29,732 | 31,500 | 30,000 | 31,700 | 31,800 | 31,900 | 32,000 |
| Number of beneficiaries of parenting payment for third child | 22,377 | 19,777 | 18,477 | 15,355 | 12,661 | 10,413 | 7,969 | 7,517 |
| Number of women – beneficiaries of the measure - support for job creation under the Operational Plan for Active Employment Programmes and Measures | 1,070 | 1,177 | 1,295 | 1,424 | 1,567 | 1,723 | 1,896 | 1,900 |

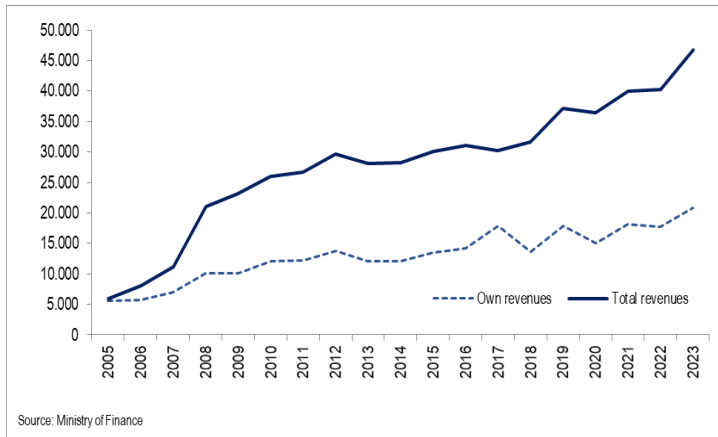
2.5 Local Government Budget

Decentralisation of the competences to local government and strengthening its capacity is one of the priorities arising from the Accession Partnership of the Republic of North Macedonia with the EU and the Framework Agreement. Since 2012, all municipalities (except for Plashnica) finance the transferred competences with block grants, when the phased approach for transferring and managing the operating and the financial resources for the transferred competences in the field of education, culture, childcare and social protection ended.

Competences in several sectors transferred to the municipalities have increased both the administrative and the fiscal capacities, as well as strengthened the capacities for managing larger amount of funds. Successful administration and collection of own revenues contribute to resuming the process of increased own revenues of municipalities and the strengthened capacities for fund management, improved performance of the transferred competences and management of financial and other resources. In addition, municipalities successfully administer new competences related to managing construction land, dealing with illegally built facilities, accompanied by adequate collection of additional revenues. Successful implementation of fiscal decentralisation, with fully established legal and institutional framework for local government, provides for developed, responsible and functional local government units and level of local democracy, bringing the citizens closer to the local government institutions. Progress in achieving the decentralisation-related goals is assessed as successful by many international institutions, which assisted with several projects geared towards improvements in the system for management, control, transparency and coordination in managing local government reforms.

At the same time, the capital market has become more accessible under more liberal and transparent requirements for borrowing, with the municipalities showing increased interest in financing investment projects on the basis of borrowing.

Chart 16. Own and Total Revenues in the period 2005 - 2023 (Denar million)⁴



As regards the level of decentralisation, Republic of North Macedonia, according to the data on 2023 expenditure execution (around 5% of GDP), belongs to the group of countries with medium degree of decentralisation. Furthermore, compared to 2005, when the process of transferring the competences and fiscal decentralisation commenced, municipal revenues have increased by more than seven times (Denar 5.9 billion in 2005, more than Denar 46 billion in 2023). Tax revenues, which the municipalities are authorised to collect, have increased by more than four times during the same period (Chart 16).

Municipalities in the Republic of North Macedonia are financed from own sources of revenues, grants from the Budget of the Republic of North Macedonia for the competences transferred in the field of education, culture, social protection and fire fighting, revenues determined in separate laws, revenues transferred to the municipalities, on the basis of taxes or fees collected at central level, transfers from the Budget of the Republic of North Macedonia and other institutions intended for realising certain capital projects, revenues collected on the basis of donations and loans and other income.

Own revenues of the municipalities are collected on the basis of local taxes (property tax, inheritance and gift tax, tax on sales of real estate), local fees prescribed by law (utility fees, administrative fees and other fees stipulated by law), local charges (landscaping of construction land, utility activities, spatial and urban plans), ownership revenues and other revenues stipulated by law.

Funds from the Budget of the Republic of North Macedonia are transferred to the municipalities, such as: capital transfers, earmarked and block grants for transferred competences in the field of education, culture, social protection and fire fighting. Funds from these grants are distributed on the basis of criteria determined in decrees adopted by the Government of the Republic of North Macedonia upon proposal by the competent ministries.

For the purpose of improving fiscal decentralisation, in the period to come, plenty of activities and measures are planned, as follows:

- improved fiscal capacity and increased municipal revenues,
- strengthened fiscal discipline and
- increased transparency and accountability throughout the operations of the municipalities.

Ultimate goal of this process is achieving better quality of public services, higher economic growth and better living standard.

Improved fiscal capacity and increased municipal revenues, will be implemented through plenty of activities, projecting increase of the funds distributed to the municipalities on the basis of revenues collected in the central Budget, increased own revenues of the municipalities and distribution of funds to support the good performance. As per Amendments to the Law on Financing Local Government Units, as of August 2022, the percentage of VAT revenues distributed to the municipalities increased from 4.5% to 6%, starting 2024.

In addition, personal income tax revenues, being distributed to the municipalities, gradually increased from 3% to 6% by 2024, on the basis of the collected personal income tax on wages of individuals as per the permanent place of residence in the municipality, starting 2024.

To the end of strengthening the financial discipline of the municipalities, arrears repayment, measures have been foreseen for realistic planning of revenues and expenditures of the municipalities, rationalising the operations and reducing the unnecessary expenditures, regular servicing of liabilities, strengthened financial discipline, declaring financial instability, issuance of municipal bonds and analysing the existing arrears of both the municipalities and the public enterprises.

⁴In line with the submitted data under the municipal annual financial statements

In order to overcome the unrealistic projecting of local government units' budgets, under the amendments to the Law on Financing the Local Government Units, fiscal rule has been set out for projecting the own revenues of the core budget, i.e. projecting is limited with the average performance of the collected revenues in the previous three years, increased by certain percentage. Thereby, in case the collection of own revenues of municipalities, as of the third quarter inclusive, accounts for more than 75% of the projected ones, they are given the opportunity to further increase the projected revenues to a maximum of 20%, starting 2025. Thereby, in 2023, the own revenues accounted for 20% with additional 10%, accounting for 15% with additional 15% in 2024, whereas as of 2025 onwards, revenues are projected to increase by 10% with additional 20%.

For the purpose of increased transparency and accountability, measures will be adopted with respect to increased transparency at the municipalities by announcing the financial reports in a transparent and understandable manner, and activities will be undertaken for the purpose of strengthened accountability when using budget funds. Increased transparency in the municipal operations is one of the preconditions for ensuring legal, earmarked and purposeful usage of public funds, all to the end of accomplishing the goals related to municipal growth and development, as well as efficient provision of services to the citizens and improved quality of life in the municipalities. Increased transparency in the municipal operations primarily pertains to strengthening the fiscal accountability of municipalities, timely inclusion of the wider public during the municipal policy making process, as well as providing information on the work done.

One of the priorities indicated in the 2024-2028 Work Programme of the Government Republic of North Macedonia, covers developed local government units and equal regional development. Government's main principles are aimed at having modern, transparent and financially stable municipalities in place, through an even distribution of funds between the planning regions and the municipalities, while also providing for equal development of all regions.

2.5.1 Performance in 2022 and 2023

In 2023, total revenues of the local government units were collected in the amount of Denar 46,021 million, being higher by 19.3% compared to those collected in the previous year. Tax revenues amounted to Denar 11,875 million, increasing by 10.8% compared to last year, accounting for 25.8% of total revenues. In 2023, as a result of the amendments to the Law on Financing Local Government Units, i.e. increased PIT revenues from 4% to 5%, being distributed to the municipalities, Denar 920 million was spent, being higher by Denar 367 million compared to 2022.

In 2023, non-tax revenues amounted to Denar 1,595 million, increasing by 10.2% compared to last year, accounting for 3.5% of total revenues. In 2023, capital revenues were collected in the amount of Denar 1,898 million, picking up by 6.4%, and accounting for 4.1% of total revenues.

Transfers accounted for the most of total revenues, accounting for 65.2%, being collected in the amount of Denar 30,016 million in 2023, thus increasing by 25.4% compared to the previous year. Increase was primarily a result of the latest amendments to the 2023 Budget of the Republic of North Macedonia, as per which, additional budget funds are allocated to the municipalities, as capital for implementing 66 capital projects, amounting to Denar 2,024 million. In addition, block and earmarked grants increased by Denar 1, 200 million. Increase was due to the higher wages by 15% intended for employees in the primary and secondary education and increased wages for employees in the other local institutions by 10% and payment of vacation allowance, as well as financing the increased costs for transport and electricity. As a result of the amendments to the Law which took place in 2023, VAT grants were higher by Denar 652 million, i.e. 18.5% compared to the year before.

Revenues on the basis of donations amounted to Denar 637 million, decreasing by 8.2% compared to 2022, accounting for 1.4% of total revenues.

In 2023, total expenditures of local government units' budgets were executed in the amount of Denar 43,283 million, being higher by 10.1% compared to last year.

Within this framework, current expenditures were executed in the amount of Denar 36,734 million. During this period, Denar 23,982 million was paid as wages and allowances for the employees in the local government units and the local institutions, being higher by 20.5% compared to the previous year, accounting for the most of total expenditures, i.e. 55.4%. Increased amount of these expenditures was mostly a result of the increased wages by 10% in September, as well as the payment of vacation allowance to the municipal administration and the employees in the local institutions, i.e. harmonisation with the provisions referred to in the General Collective Agreement.

Expenditure reserves and non-defined expenditures were executed in the amount of Denar 54 million, increasing by 17.4% compared to 2022, recording a minor share of 0.1% in the total expenditures.

Expenditures related to goods and services were executed in the amount of Denar 9,354 million, recording a slight decrease by 5.4% compared to 2022, accounting for 21.6% of total expenditures.

Highest increase was registered at interest-related expenditures, accounting for 83.8% compared to those executed in 2022, however, their share in total expenditures was insignificant, accounting for 0.2%.

In 2023, expenditures related to subsidies and transfers were executed in the amount of Denar 3,204 million, surging by 11.3% compared to the previous year, accounting for 7.4% of total expenditures.

In 2023, expenditures related to social benefits were executed in the amount of Denar 72 million, surging by 7,5% compared to the previous year, accounting for 0.2% of total expenditures, thus recording insignificant share thereof.

In 2023, capital expenditures were executed in the amount of Denar 6,549 million, being higher by 1.1% compared to last year. These expenditures accounted for 15.1% of total expenditures in 2023.

In 2023, local government generated a surplus in the amount of Denar 2,738 million, mostly as a result of the transfers, the local government units received from the 2023 Budget of the Republic of North Macedonia, amounting to over Denar 2 billion at the end of the year.

2.5.2 2024 Budgets of Local Government Units

2024 budgets of local government units were prepared as per the instructions given in the 2024 budget circular of the municipalities, with the maximum amounts for projecting the Core Budget revenues, as well as the projections of the VAT grants, block and earmarked grants given in the Attachment below.

Pursuant to the Law on Financing the Local Government Units, percentage of increased Core Budget own revenues over the determined average of own revenues collected in the last three years, accounted for 15% in 2024. Thereby, in case the collection of own revenues of municipality, as of the third quarter inclusive, accounts for more than 75% of the projected Core Budget own revenues, the municipality is given the opportunity to further increase the projected revenues up to 15%. At the same time, if the municipality has provided a confirmation for transfer of funds from an appropriate institution or in the case of changes pertaining to the amount and the type of own revenues of the core budget established by law, the municipality may increase the projected revenues.

As per the amendments to the aforementioned Law, VAT revenues, distributed to the municipalities, gradually increased from 4.5% to 6% in 2024. In addition to the 4.5% allocated to the General Fund, 0.75% is distributed to the Equalisation Fund and the Performance Fund, respectively. In 2024, municipalities were allocated 6% of the VAT collected in the previous year, amounting to Denar 4,202 million, being an increase by Denar 640 million compared to 2023. In 2024, personal income tax revenues accounted for 6%, on the basis of the collected personal income tax on wages of individuals as per the permanent place of residence in the municipality, being projected in the amount of Denar 1,091 million or by Denar 171 million more compared to 2023.

In 2024, the trend of increasing earmarked and block grants for the transferred competences in the field of education, social protection and childcare, culture and fire fighting, was kept. In 2024, amounts for grants were projected in the amount of Denar 26,585 million, being higher by Denar 2,737 million compared to 2023. Growth resulted from the increased wages, i.e. harmonisation with the minimum wages and the payment of vacation allowance.

Total revenues of the 2024 local government units' budgets were projected in the amount of Denar 49,201 billion, being higher by 6.9% in relation to 2023, while expenditures were projected in the amount of Denar 55,971 billion, being higher by 29.3% in relation to 2023. Increase in expenditures was due to the higher capital expenditures, projected in the amount of Denar 12,648 million, increasing by 93.1% compared to 2023. These funds were intended for capital investments such as construction and reconstruction of streets and local roads, reconstruction and construction of schools, kindergartens and sports halls and playgrounds, environmental protection, etc.

Such projected revenues and expenditures resulted in a budget deficit of EUR 6,770 million in absolute terms. High deficit was mostly reflected on the deposits, i.e. the unused funds the municipalities received as capital transfers from the Central Budget at the end of 2023.

2.5.3 Revenue Collection and Expenditure Execution in the period January – August 2024

Performance of revenues and inflows to the budgets of local government units in the period January – August 2024, amounted to Denar 30,872 million and, compared to the same period last year, they grew by 10.5%. Denar 8,726 million out of this amount were tax revenues, growing by 17.4% compared to the previous year, whereby property tax revenue collection amounted to Denar 2,976 million, recording a slight increase by 5%. Income taxes amounting to Denar 816 million, significantly increased by approximately 40.7%, mostly as a result of the increase of both the minimum wage and the wages of the employees, above all in the field of education and social protection, as well as the increased percentage of PIT distributed to the municipalities. Collection of revenues on the basis of tax on specific services amounted to Denar 4,901 million, increasing by 23.2%, while fees for usage or licenses for performing an activity recorded 14.6% drop.

During the analysed period, non-tax revenues were collected in the amount of Denar 951 million, and compared to the same period in 2023, they recorded a slight 3.6% increase. As for non-tax revenues, revenues on the basis of fees and charges predominated, amounting to Denar 680 million, decreasing by 3% compared to the revenues collected in the same period last year, while other non-tax revenues amounted to Denar 217 million, recording a 3.3% drop. Other non-tax revenues amounted to around Denar 55 million, slightly growing by 10.3% compared to the previous year.

In the period January - August 2024, capital revenues were collected in the amount of Denar 870 million, being lower by 20.8% compared to the previous year. As for capital revenues, they almost fully comprised revenues collected on the basis of sale of land and intangible investments.

Revenues on the basis of grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes and firefighting amounted to Denar 17,056 million, i.e. they increased by 13.3% during the analysed period of 2024. In the period January – August 2024, the revenues on the basis of transfers from the Central Budget and other levels of government, were collected in the amount of Denar 2,883 million, increasing by around 4% compared to those collected during the same period last year.

In the period January – August 2024, revenues on the basis of grants were collected in the amount of Denar 362 million, i.e. they decreased by 8.4% compared to last year, whereby inflows from loans were collected in the amount of Denar 23 million, significantly decreasing by 61.2% compared to the same period last year.

In the period January – August 2024, expenditures were executed in the amount of Denar 30,630 million, i.e. execution was significantly higher by 30.2% in relation to the same period last year. These expenditures provided for regular settling of liabilities arising from the transferred competences to the municipalities, necessary for their ongoing operations, implementation of capital projects and principal repayment for the previously concluded loans.

Expenditures related to wages and allowances accounted for most of the expenditures with 58%, i.e. Denar 17,766 million, and compared to the same period last year, they recorded significant growth of 33.2%. The largest part of the wage bill, i.e. 85% or Denar 15,079 million, pertained to the employees in the institutions at local level, such as primary and secondary education, culture, kindergartens and old people's homes and fire fighting, around 98.6% of which were financed with block grants. Expenditures related to goods and services were executed in the amount of Denar 5,534 million, accounting for 18.1% of the total expenditures and, compared to the same period in the previous year, they increased by 14.1%. Expenditures related to subsidies and transfers amounted to Denar 2,240 million, accounting for 7.3%, while principal repayment amounted to Denar 422 million, i.e. 1.4% of total expenditures. Expenditures executed on the basis of reserves, social benefits and interest payments accounted for around 0.4%.

Capital expenditures accounted for 14.8%, amounting to Denar 4,540 million, i.e. 94.95% was financed with funds from the collected Core Budget revenues, most of which were transfers from the Central Budget, intended for capital investments. 2.4% of the capital expenditures was executed with funds received on the basis of donations, 1.95% from grants, 0.38% from loans and 0.32% from self-financing activities. Capital expenditures significantly increased by 47.9% compared to the same period last year, pointing out to considerable scaled-up capital investments and overcoming the consequences of the increased price of oil and oil derivatives, as well as electricity, as well as owing to the increased amount of funds transferred from the Central Budget, being intended for capital investments.

2.5.4 Medium-Term Framework of Local Government Budget

One of the priorities indicated in the 2024-2028 Work Programme of the Government of the Republic of North Macedonia, covers developed local government units and equal regional development. Government's main principles are aimed at having modern, transparent and financially stable municipalities in place, through an even distribution of funds between the planning regions and the municipalities, while also providing for equal development of all regions.

Government's financial support and cooperation with the municipalities will be geared towards: continuous investment of the Central Budget funds in capital infrastructure projects for the municipalities, up to EUR 250 million, increased financial stability of municipalities by ensuring equal distribution of funds, while paying attention to the balanced regional development principles, benefits and incentives for those municipalities with well-designed budgets, high expenditure execution, high local tax collection, as well as improved methodology for calculating the maintenance costs of educational facilities in the municipalities, as per which funds are paid thereto via block grants.

In cooperation with local government units, Government will work on enhancing the decentralisation process via continuous increase of the transfers of competencies by the state administration bodies to the local government units in line with the built capacities of local government units.

Capital investments are the key factor for boosting the competitiveness of the economy and improving the quality of life for the citizens. In the upcoming period, the Government be dedicated to the following: capital investments to be solely aimed at productive projects: infrastructure and energy projects in support of the business

sector, and capital projects in the field of utilities and other local infrastructure, geared towards improving the living conditions of the Macedonian citizens.

During its term of office, the Government will be also focused on revising the system for distribution of the transfers from the Central Budget to the municipalities. Central Budget transfers will be in correlation with efficient genuine revenue collection. Correlating the budget transfers with the performance of municipalities in collecting their own revenues will imply fair taxation and transfer of budget funds to the municipalities.

Municipalities are expected to continue the trend of improved collection of own revenues, as well as strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. Strong devotion will continue in the coming period, by encouraging sustainable local development, good local governance and creating conditions for more active, effective and innovative role of the local authorities in implementing national objectives for growth and development, all to the end of realising the strategic commitments.

By taking into account the activities undertaken in 2023 related to completing the second phase of fiscal decentralisation, during 2024, it is expected for all activities for entering of Plashnica Municipality in the second decentralisation stage, to be completed,

In 2025 and in the medium term, many activities and measures are envisaged for the purpose of strengthening the fiscal decentralisation, in particular improved fiscal capacity and increased municipal revenues, strengthened fiscal discipline and transparency and accountability as regards municipalities' operations.

Amendments to the Law on Financing Local Government Units provided for improved fiscal capacity and increased municipal revenues, by which PIT revenues gradually increased from 3% in 2022 to 6% in 2024. In addition, as per these amendments, in 2024 and the next years, municipalities will receive 6% of the collected PIT revenues.

In 2024 and beyond, VAT revenues will account for 6% of the collected VAT generated in the previous year.

New Law on Financing Local Government Units will be prepared with UNDP technical assistance, as per the assessment of the existing Law carried out in 2022, which will be harmonised with the new Organic Budget Law, to be followed by adopting the respective bylaws.

As regards strengthening the fiscal responsibility of the municipalities, the legal amendments are expected to provide for increased transparency of their operations, by which the municipalities are obliged to publish financial data in a transparent manner on their websites, coupled by spending accountability for all funds transferred by the Government. Data on revenue collection and expenditure execution of municipalities, as well as the arrears reported in the Electronic System for Reporting and Recording of Liabilities are published on MoF's website on quarterly basis, whereby the Annual Report on the Budget of the Republic of North Macedonia also includes the Annual Report on the Municipal Budgets. With UNDP support, the financial data under the periodical financial reports of around 45 municipalities were published on the websites of the municipalities, as well as on MoF's website.

Additional revenues are also transferred to the municipalities' budgets as grants from the Budget of the Republic of North Macedonia and the Funds' budgets for the purpose of financing their competences stipulated by law. Block grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grants for firefighting, as well as capital grants from the Central Budget, have been transferred from the Budget of the Republic of North Macedonia. For the purpose of more even distribution of the grants by municipalities, the competent ministries will carry out analyses of the criteria, as per which the funds are distributed for the separate transferred competences, while also determining new distribution models in line with the needs, thus rendering better-quality services. Ministry of Education and Science, in cooperation with UNICEF and the World Bank, is working on determining new criteria for distributing the block grant for primary education on the basis of a pupils' standard, whereby reforms are proposed, all to the end of optimising the school network, reducing the number of teaching staff as well as improving the conditions in primary schools, as well as the curriculum thereof. Purpose is to increase the efficiency and the effectiveness of the primary education, while also ensuring equality as regards the access to schools.

Funds are distributed to the municipalities through the competent ministries and other institutions in the form of capital grants, for the purpose of implementing the capital infrastructure projects in the respective municipalities. Distribution is carried out in line with the Programme, being adopted by the Government upon proposal by the competent ministry.

Ministry of Finance, while reforming the normative framework for designing a formalised capital transfer system, needs to prepare Methodology on Capital Grant Distribution, including unified, transparent and clear criteria, as well as a proposal for setting ex post evaluation of the implemented projects financed via capital grants and potential inclusion of the success as regards the assessment in the distribution criteria.

In the next medium-term period, stable revenues have been provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, which distribution depends on

the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the projected ones. Stable own revenues are provided from funds distributed to the municipalities on the basis of the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the municipalities), depending on which area the concession activity is performed.

Moreover, increase will be recorded at own revenue performance at the municipalities, in particular revenues collected on the basis of taxes on real estate, as a result of greater coverage of the real estate of natural persons and legal entities and re-assessment of the value of the real estate. In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure on recording and legalising the illegally built facilities on construction and agricultural land. As per the latest amendments to the Law on Property Taxes, in the next period, the real estate market value is to be revised, as a property tax base, by the municipalities, the municipalities in the City of Skopje and the City of Skopje, every fourth year, all to the end of getting harmonised with the ongoing developments. Property tax rates on agricultural land, which is not used for agricultural production, are increased from three to five times in relation to the base rates. Tax base for the tax on sales of real estate is the market value of the real estate at the moment the liability occurs. As an exception, in case when the price attained when transferring the ownership right is higher than the market value set as per the Methodology for Determining the Market Value of the Real estate, the tax base is the price attained when transferring the ownership right.

Special efforts will be put in supporting the municipalities by encouraging the local development via supporting the local projects and harmonising them with the national ones. The goal of fiscal equalisation within the context of the Strategy for Regional Development is to ensure equal offer of public goods and services at all LGUs, thereby achieving a complementary effect of more balanced development of certain planning regions. Providing joint assistance to the financially weakest municipalities, i.e. municipalities with the least revenue collection capacity, yields positive effects for both their development and the development of the planning region which they belong to.

In addition to the support as regards the transfer of competences for collection of part of the public revenues, as well as the Central Budget transfers, support to building municipal capacities is also implemented through projects of the central government funded by international financial institutions.

In 2023, Municipal Services Improvement Project was completed. This Project, being implemented by the Ministry of Finance with support from the World Bank and the European Commission, which commenced a decade ago, with total fund of more than EUR 100 million, was aimed at improving the municipal services through loans and grants for the municipalities in support of implementing capital projects such as water supply, sewerage and waste water treatment, energy efficiency (street lighting, insulation of municipal facilities, etc.), local road infrastructure (street and road modernisation and reconstruction), utility services (procurement of vehicles for the public utility enterprises), as well as other municipal services and competences (construction of kindergartens, green markets, infrastructure in the industrial zone, etc.). In cooperation with the World Bank, there are ongoing negotiations for preparing a new Sustainable Municipal Development Project, all to the end of further extending the support for the municipal projects by awarding loans and grants thereto.

Under the Local Roads Connectivity Project, which is part of the ongoing Country Partnership Framework, implemented by the Ministry of Transport and Communications, EUR 70 million is intended to be disbursed to all 80 municipalities and the City of Skopje for construction and rehabilitation of local roads and streets, as well as other road infrastructure in local government units. Such direct support ranging from EUR 500,000 up to EUR 2 million per municipality (depending on the project the respective municipality applies for) provides for improved local infrastructure in the municipalities.

In the period to come, Public Sector Energy Efficiency Project will continue to be implemented via the Ministry of Finance with World Bank support under Loan Agreement in the total amount of EUR 25 million. Public Sector Energy Efficiency Project will be implemented by MSIP Project Implementation Unit. Main objective of this Project is reducing energy consumption in the public sector, at the same time improving the energy class and the quality of the public buildings and the public lighting. All local government units are eligible to use the funds under this component. Amount of funds per municipality can vary from EUR 50,000 to EUR 750,000 and is dependent on the municipal borrowing capacity and the estimated investment value of the proposed municipal project. By signing a sub-loan agreement with the Ministry of Finance, 80% of the loan funds is allocated to the municipality as on-lending, with the remaining 20% being allocated as a grant. Moreover, within the funds under this Project, the Ministry of Finance also covers the expenses for preparation of energy audit and technical design.

Another major project implemented in the past ten years, aimed at improvement of the municipal infrastructure, is Water Supply and Wastewater Collection Project, funded by the European Investment Bank (EIB) and implemented by the Ministry of Transport and Communications. Funds in the amount of EUR 50 million are provided to all municipalities, all to the end of constructing better water supply infrastructure and wastewater treatment plants. Such

significant activities continue to be implemented within the Municipal Water Infrastructure North Macedonia Project, funded with European Investment Bank's loan amounting to EUR 50 million, being implemented via the Ministry of Environment and Physical Planning.

In the field of environment, major capital Project for Construction of Skopje Wastewater Treatment Plant is implemented, funded with European Investment Bank's loan amounting to EUR 68 million, loan by the European Bank for Reconstruction and Development in the amount of EUR 58 million, as well as investment grant under the Western Balkans Investment Framework, amounting to EUR 70 million. As regards solid waste management, Regional Solid Waste Management Project is of vital significance, foreseeing establishment of management systems, i.e. solid waste stations in Southwest, Vardar and Pelagonija Regions, Southeast Region and Polog Region, funded with a loan amounting to EUR 55 million by the European Bank for Reconstruction and Development and investment grant under the Western Balkans Investment Framework, amounting to EUR 23 million.

What is also envisaged in the coming medium-term period is introducing fiscal decentralisation monitoring indicators, increasing local tax collection efficiency, improving the effectiveness and profitability of public enterprises and the municipalities, as well as increasing the transparency and the accountability of the municipalities.

In cooperation with foreign donors, activities are undertaken in order to create municipal "sustainable development index", harmonised with the sustainable development objectives, to serve as a local development policy instrument, thus assisting the authorities at all levels, in planning and distributing funds for development, all to the end of promoting equal social and economic growth, as well as easing the monitoring of the development progress. For the purpose of a complete review of municipal development, Municipal Development Index will be set. Index will incorporate 11 main pillars with 11 indicators for measuring development, which will be used for further projected the funds allocated from the Central Budget, thus providing information on the development of each municipality separately. Municipal Development Index offers valuable insights into the overall development of municipalities by providing a comprehensive assessment of the key indicators, promoting sustainable and inclusive municipal development. Activity is carried out within UNDP project activities.

Table 13. Medium-Term Projection of Local Government Budget (Denar million)

| | 2022 | 2023 | 2024* | 2025* | 2026* | 2027* | 2028* | 2029* |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total revenues | 38,716 | 49,902 | 52,741 | 53,276 | 55,282 | 58,214 | 61,087 | 61,087 |
| Tax revenues | 10,716 | 12,454 | 12,780 | 13,110 | 13,450 | 13,770 | 14,100 | 14,100 |
| Non-tax revenues | 1,419 | 2,644 | 2,755 | 2,855 | 2,960 | 3,080 | 3,180 | 3,180 |
| Capital revenues | 1,784 | 2,310 | 2,310 | 2,360 | 2,420 | 2,470 | 2,520 | 2,520 |
| Transfers | 24,105 | 30,817 | 32,848 | 32,903 | 34,404 | 36,846 | 39,239 | 39,239 |
| Donations | 692 | 1,676 | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 |
| Total expenditures | 38,911 | 49,902 | 52,741 | 53,276 | 55,282 | 58,214 | 61,087 | 61,088 |
| Wages and allowances | 19,899 | 22,078 | 23,740 | 24,040 | 24,640 | 25,340 | 26,240 | 26,241 |
| Goods and services | 9,900 | 12,081 | 12,250 | 12,450 | 13,000 | 13,850 | 14,400 | 14,400 |
| Interest payments | 37 | 63 | 60 | 60 | 60 | 60 | 60 | 60 |
| Subsidies and transfers | 2,857 | 2,878 | 3,280 | 3,280 | 3,280 | 3,480 | 3,580 | 3,580 |
| Social transfers | 67 | 71 | 80 | 80 | 80 | 80 | 80 | 80 |
| Capital expenditures | 6,151 | 12,731 | 13,331 | 13,366 | 14,222 | 15,404 | 16,727 | 16,727 |
| Balance | -195 | 0 | 0 | 0 | 0 | 0 | 0 | -1 |

2.6 Public Enterprises and State-Owned Companies

Operations of public enterprises and state-owned companies are regulated in the Law on Public Enterprises, the Company Law, as well as other laws defining the operations in the specific area (Law on Energy, Law on Railway System, Law on Public Roads, etc.)

Government of the Republic of North Macedonia has founded 15 public enterprises, being a single shareholder/member in 14 companies. These entities employ around 14 thousand workers, accounting for a significant part of the Macedonian economy.

Total revenues of public enterprises and state-owned companies in 2023, in line with the data from the quarterly and the annual reports, amounted to Denar 68.7 billion, total expenditures were executed in the amount of Denar 62.7 billion, resulting in gross profit to approximately Denar 6 billion in 2023, mostly as a result of the subsidies from the State Budget, paid to the energetic companies, all to the end of cushioning the price shock triggered from the energy crisis.

Financial indicators from the operations of public enterprises and companies are shown on accrual basis, in line with the stipulated accounting methodology, differing from the one of budget users showing the financial data on cash basis, thereby taking into account that these entities keep accounting records, prepare and submit the annual account and the financial reports in line with the Company Law and the adopted international accounting standards and the International Financial Reporting Standards. The loss presented at certain public enterprises and state-owned companies is a result of the calculated depreciation of fixed assets, which is basically an accrual expense.

Table 14. Main financial indicators for public enterprises and fully state-owned companies (Denar million)

| | Public enterprise / State-owned companies | total | total | financial | revenues | expenditures | financial | total | total | financial | total | total | financial |
|----|---|----------------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| | | revenues | expenditures | result | (plan) | (plan) | result | revenues | expenditures | result | revenues | expenditures | result |
| | | in million of denars | | | | | | | | | | | |
| | | 2023 | | | plan 2024 | | | Q 1 - 2024 | | | Q-2 2024 | | |
| 1 | Power plants of North Macedonia ESM, JSC - Skopje | 30.764,7 | 30.452,6 | 312,2 | 21.853,0 | 31.984,1 | -10.131,1 | 6.601,7 | 8.992,4 | -2.390,7 | 4.923,5 | 6.586,5 | -1.662,9 |
| 2 | Electricity Transmission System Operator of the Republic of North Macedonia, a JSC for electricity transmission and power system control, in state ownership - Skopje | 8.551,7 | 7.645,1 | 906,7 | 7.324,9 | 7.324,9 | 0,0 | 1.302,5 | 1.310,9 | -8,4 | 1.166,9 | 1.286,4 | -119,5 |
| 3 | Public enterprise for state roads - Skopje | 12.844,6 | 6.629,4 | 6.215,2 | 12.290,0 | 3.340,0 | 8.950,0 | 2.417,3 | 2.202,7 | 214,6 | 2.753,4 | 1.407,9 | 1.345,5 |
| 4 | Railways of the Republic of North Macedonia Transport, JSC - Skopje | 1.166,3 | 1.925,7 | -759,4 | 1.214,0 | 1.605,2 | -391,2 | 287,0 | 378,8 | -91,8 | 242,5 | 354,8 | -112,3 |
| 5 | Public enterprise for managing forests „National Forests“ - Skopje | 1.380,7 | 1.517,6 | -137,0 | 2.109,0 | 2.024,3 | 84,7 | 75,0 | 218,7 | -143,7 | 236,8 | 285,4 | -48,6 |
| 6 | State owned JSC for postal traffic "Post of North Macedonia" - Skopje | 1.260,8 | 1.397,9 | -137,1 | 1.275,6 | 1.448,6 | -173,0 | 327,8 | 355,9 | -28,1 | 293,0 | 347,0 | -53,9 |
| 7 | Public enterprise for railway infrastructure Railways of Republic of North Macedonia - Skopje | 923,8 | 1.598,7 | -674,9 | 898,5 | 1.358,8 | -460,3 | 170,1 | 314,2 | -144,1 | 284,2 | 331,0 | -46,9 |
| 8 | Public enterprise for the maintenance and protection of national and regional roads - Skopje | 1.624,0 | 1.513,3 | 110,7 | 2.084,5 | 2.069,5 | 15,0 | 466,5 | 342,8 | 123,8 | 259,1 | 290,6 | -31,5 |
| 9 | Public enterprise "National Television" - Skopje | 1.000,4 | 1.132,2 | -131,8 | 1.581,5 | 1.581,5 | 0,0 | 316,2 | 285,5 | 30,8 | 311,9 | 239,8 | 72,2 |
| 10 | JSC for construction and management of residential and commercial property significant to the country - Skopje | 564,6 | 560,2 | 4,4 | 790,2 | 787,3 | 2,9 | 187,4 | 186,8 | 0,5 | 112,0 | 170,9 | -59,0 |
| 11 | Air Navigation service provider of the Republic of North Macedonia, JSC „M-NAV“ - Skopje | 1.446,9 | 1.176,2 | 270,6 | 1.407,4 | 1.379,5 | 27,9 | 217,1 | 281,0 | -63,8 | 400,9 | 316,9 | 84,0 |
| 12 | JSC Water Economy of Republic of North Macedonia | 577,0 | 690,1 | -113,1 | 824,1 | 820,3 | 3,8 | 106,3 | 158,0 | -51,7 | 137,1 | 170,4 | -33,3 |
| 13 | Public enterprise for water supply "Strezevo" - Bitola | 240,3 | 439,0 | -198,7 | 305,3 | 427,1 | -121,8 | 47,2 | 99,8 | -52,6 | 58,9 | 106,3 | -47,4 |
| 14 | JSC "TEC Negotino" - Negotino | 3.548,3 | 3.687,9 | -139,6 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| 15 | JSC "State lottery of North Macedonia" - Skopje | 1.157,4 | 670,4 | 487,0 | 2.742,6 | 1.813,3 | 929,2 | 383,2 | 377,5 | 5,7 | 735,5 | 380,3 | 355,1 |
| 16 | Public enterprise Hydrosystem "Zlebovica" - Probitip | 115,5 | 177,3 | -61,8 | 52,2 | 179,2 | -127,0 | 9,4 | 44,2 | -34,9 | 12,1 | 44,6 | -32,5 |
| 17 | Public enterprise "National Broadcasting" - Skopje | 199,9 | 231,5 | -31,6 | 290,3 | 290,3 | 0,0 | 61,4 | 53,3 | 8,1 | 73,8 | 60,0 | 13,7 |
| 18 | JSC for airport services "Airports of the Republic of North Macedonia" - Skopje | 48,2 | 109,2 | -61,1 | 19,0 | 116,4 | -97,4 | 20,3 | 4,8 | 15,6 | 4,3 | 5,0 | -0,7 |
| 19 | „Boris Trajkovski“, state owned limited liability company established by one person - Skopje | 150,0 | 115,7 | 34,3 | 117,9 | 153,2 | -35,3 | 21,0 | 27,0 | -6,0 | 16,5 | 26,4 | -9,9 |
| 20 | Public enterprise for water supply "Lisice" - Veles | 46,5 | 86,3 | -39,8 | 52,1 | 89,7 | -37,6 | 16,5 | 22,4 | -5,9 | 6,6 | 21,5 | -14,9 |
| 21 | JSC for management of state - owned business premises - Skopje | 80,5 | 76,1 | 4,4 | 84,9 | 83,2 | 1,7 | 19,4 | 20,5 | -1,2 | 19,7 | 19,4 | 0,3 |
| 22 | Public enterprise "Official Gazette of Republic of North Macedonia" - Skopje | 103,6 | 84,4 | 19,2 | 109,9 | 103,8 | 6,1 | 25,7 | 22,0 | 3,7 | 27,2 | 22,9 | 4,3 |
| 23 | Public enterprise for water supply "Studenica" - Kicevo | 110,4 | 74,8 | 35,6 | 77,9 | 77,9 | 0,0 | 20,2 | 18,0 | 2,3 | 20,5 | 19,0 | 1,5 |
| 24 | Media information agency - Skopje, a state owned JSC | 73,0 | 70,6 | 2,3 | 75,6 | 75,5 | 0,1 | 8,0 | 16,7 | -8,6 | 18,6 | 19,5 | -0,9 |
| 25 | Public enterprise „JASEN“ - Skopje | 52,3 | 50,1 | 2,2 | 54,5 | 54,1 | 0,4 | 6,7 | 10,3 | -3,6 | 11,5 | 11,5 | 0,1 |
| 26 | Public enterprise for management of pastures - Skopje | 23,9 | 28,1 | -4,2 | 42,2 | 38,9 | 3,3 | 4,1 | 3,6 | 0,5 | 7,3 | 6,6 | 0,8 |
| 27 | JSC „Nomogas“ - Skopje | 444,3 | 359,1 | 85,2 | 807,8 | 365,0 | 442,8 | 173,9 | 84,3 | 89,6 | 57,1 | 69,1 | -12,0 |
| 28 | Public enterprise „Agro - Berza“ - Skopje | 18,5 | 13,9 | 4,6 | 17,5 | 17,5 | 0,0 | 3,2 | 3,7 | -0,5 | 6,2 | 3,3 | 2,8 |
| 29 | Public enterprise „Collector system“ - Skopje | 151,5 | 197,7 | -46,2 | 152,1 | 150,5 | 1,6 | 26,7 | 32,2 | -5,5 | 31,6 | 31,1 | 0,5 |
| 30 | State owned limited liability company established by one person „Nalovod“ - Skopje | 0,8 | 7,5 | -6,7 | 0,0 | 7,6 | -7,6 | 7,0 | 1,9 | 5,1 | 0,0 | 1,5 | -1,5 |
| | TOTAL: | 68.670 | 62.719 | 5.952 | 58.654 | 59.767 | -1.113 | 13.329 | 15.870 | -2.541 | 12.229 | 12.636 | -407 |

Source: Annual reports and Financial plans of public enterprises and state - owned trading companies

Budget revenues on the basis of payment of dividend by companies, wherein the state is full or partial shareholder and the payment of surplus of funds from the operations of state-owned companies and public enterprises amounted to total of Denar 487.9 billion at the end of 2023, whereby in 2024, revenues on this basis, are expected to amount to approximately Denar 500 million.

On the other hand, although the annual Law on Execution of the Budget of the Republic of North Macedonia does not directly cover public enterprises and state-owned companies, they are transferred funds, via their line

ministries, as budget support for the purpose of implementing certain infrastructure projects, given that they perform activities of public interest, i.e. they are entities performing activities essential for Macedonian economy.

Pursuant to the Law on Public Enterprises, and for the purpose of increasing transparency, public enterprises are obliged to publish the annual and the quarterly reports on their websites, thus providing for timely and transparent monitoring of financial operations of these entities, at the same time providing opportunity for more realistic prediction of the fiscal risk in this field and timely undertaking of appropriate measures. As of 2020, on its website, Ministry of Finance publishes consolidated quarterly data on the collected revenues and executed expenditures at the level of public enterprise/state owned-company.

Public enterprises and state-owned companies are obliged, pursuant to the Law on Reporting and Recording of Liabilities, to report, on monthly basis, undue liabilities and arrears in the Electronic System for Reporting and Recording Liabilities, being kept by the Ministry of Finance. On the basis of the recorded data on reported liabilities, Ministry of Finance publishes, in continuity and on quarterly basis, summary reports on its website, thus additionally contributing to strengthened and increased transparency.

Government of the Republic of North Macedonia, as founder of public enterprises and state-owned companies continuously monitors their financial operations via the annual accounts and annual reports, 3-month reports, financial plans and investment programmes, under which consideration and approval, observations and remarks are provided to the competent bodies of the enterprises/the company, being geared towards reducing the non-productive expenditures, undertaking measures for collection of uncollected claims and timely settlement of the liabilities.

Contemporary public financial management concept designed in the new Organic Budget Law is aimed at improving the public finance management and strengthening the medium-term budgeting, as one of the biggest priorities of the Government of the Republic of North Macedonia in the EU accession process. This concept also covers public enterprises and state-owned companies as substantial segment in the public sector, thus, activities are planned for the next period, pertaining to introduction of medium-term planning at these entities as well. To that end, during 2024, Ministry of Finance required, under circular letter, data from public enterprises and state-owned companies for projected revenues and expenditures in medium term, i.e. in the period 2024-2029.

Table 15: Main financial indicators for planned operations of public enterprises and state-owned companies (Denar billion) for the period 2024-2029

| TOTAL PROJECTED REVENUES AND EXPENDITURES IN THE PUBLIC ENTERPRISES AND JSCs IN THE PERIOD 2023-2029, Denar billion | | | | | | | |
|---|-----------------------|------|------|------|------|------|------|
| No. | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| 1 | TOTAL REVENUES | 58.7 | 67.1 | 68.4 | 69.0 | 69.7 | 72.7 |
| 2 | TOTAL EXPENDITURES | 59.8 | 57.2 | 57.7 | 57.6 | 57.4 | 57.3 |
| 3 | FINANCIAL PERFORMANCE | -1.1 | 9.9 | 10.7 | 11.4 | 12.3 | 15.4 |

In the first quarter of 2024, 12 out of total of 29 entities reported profit in the amount of Denar 0.5 billion, while the remaining 17 entities reported loss in the amount of approximately Denar 3 billion, hence the final financial performance from their operations was negative, amounting to Denar 2.5 billion in the period January – March. Presented loss from the operations of all entities in the first quarter of 204 is mostly a result of the negative financial performance of the operations of the JSC Power Plants of North Macedonia (Denar 2.4 billion), Public Enterprise for Railway Infrastructure “Railways of Republic of North Macedonia” (Denar 144 million), Public Enterprise “National Forests” (Denar 143.7 million) and the Joint-Stock Company Railways of Republic of North Macedonia – Transport (Denar 91.8 million).

Total revenues of public enterprises and companies amounted to Denar 12.2 billion in the second quarter of 2024, while total expenditures are projected in the amount of Denar 12.6 billion, with a negative final financial indicator amounting to Denar 0.4 billion. In the period April – June 2024, 12 entities reported positive financial performance, amounting to Denar 1.8 billion, while 17 entities reported loss in the amount of Denar 2.2 billion.

3. Other Aspects and Improvement of Public Financial Management

3. 2022-2025 Public Financial Management Reform Programme

Effective public finance management is of key significance not only for improving the fiscal discipline and the strategic distribution of the scarce public resources, but also for ensuring transparency, accountability and efficiency in budget spending, as well as rendering high-quality public services, which play major role in gaining public trust and increasing overall domestic support for implementing the challenging reforms.

Moderate economic growth and moderate high public debt – primarily for managing the adverse effects of the pandemic and the energy crisis – contributed to limited fiscal space. Increased public resources are required for scaled-up investments in the field of infrastructure, education, health and digital transformation, which are of crucial importance for boosting both productivity and competitiveness, as well as improving the quality of life for citizens. Hence, intensified implementation of the reforms aimed at enhanced revenue mobilisation, optimisation and re-prioritising public expenditures, as well as promoting investments in capital projects, which provided for boosted productivity, is of essential importance for creating convenient environment for accelerating economic growth and facilitating EU convergence.

Even with managing the global price and energy crisis, the Government carried out major public finance reforms aimed at accelerated, inclusive and sustainable economic growth, higher standard and quality of life. Times of crisis best show the required changes to the system. New Organic Budget Law is among the major reforms implemented, introducing medium-term budgeting, as well as the reform aimed at strengthening fiscal decentralisation from the aspect of financing and accountability, and the reform aimed at broadening the tax base.

Public finances reform is aimed at longer-term and better planning of budget programmes and budgets, sustainability and continuity in implementing the policies, more just model in view of revenues and expenditures and the manner of financing, as well as monitoring and measuring the performance. Among the main pillars of public finance reforms are transparency, accountability, as well as allocation of public funds where greater benefits are generated when prioritising the optimal policies in support of both the citizens and the businesses, by introducing “value for money” concept and so-called Key Performance Indicators. Public finance reforms are essential for rapid recovery from the crisis, as well as accelerated economic growth. All this encompasses maintaining stable budget over the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation.

Public Financial Management Reform Programme is a strategic document for development of the public financial management system, always including the civil society, the development partners and other relevant stakeholders in its preparation. Such concept of an inclusive and open dialogue with all stakeholders about the PFM policies is applied, as a good practice, for the preparation of all PFM Programmes.

Public Financial Management Reform Programme covers all aspects of public financial management: economic analysis, macroeconomic and fiscal framework, revenue mobilisation and collection, budget planning, public investment management, effective instruments under the Growth Acceleration Plan, public procurement, including PPP, establishment of integrated financial management information system (IFMIS), Public Finance Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at local level.

Key goals of the Programme are improved fiscal framework, strengthened process of public finance planning, execution and reporting, increased revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, which are to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation. Further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural reforms, but also as a process which improves the quality of the public administration and ensures an attractive and desired environment for the investors. Moreover, the Government has developed sub-system reform strategies in the areas of public internal financial control and tax system.

3.2. Report on the Recorded Liabilities pursuant to the Law on Reporting and Recording the Liabilities

For the purpose of providing and maintaining transparency and accountability and strengthening the accountability when managing public funds, the Law on Reporting and Recording Liabilities regulates the reporting, recording and publication of the data on reported undue liabilities and arrears.

Such legal solution regulates the recording of liabilities on monthly basis in the electronic system by the general government bodies, local government units and institutions performing activities in the field of culture,

education, health, child care, social protection, as well as in other activities of public interest determined by Law, established by the Republic of North Macedonia or by the local government units, public enterprises, state-owned companies and other legal entities founded by the Republic of North Macedonia or the local government units.

For the purpose of informing the public and greater transparency, and on the basis of the recorded data on reported liabilities, reporting is carried out on monthly basis through the Electronic System for Reporting and Recording Liabilities, by the 10th day in the month for the previous month at the latest, and Ministry of Finance, publishes, on quarterly basis, summary reports on its website.

On quarterly basis, Ministry of Finance(<https://finance.gov.mk/ecneo/>) publishes, on its website, the following reports:

- Report on Reported Liabilities by entities,
- Report on Reported Liabilities by groups of entities,
- Report on Reported Liabilities by types of expenditures and
- Report on Reported Liabilities by types of clients.

Entities reporting data in the Electronic System for Reporting and Recording Liabilities are responsible for full accurate and timely reporting of the liabilities.

Implementation of the provisions referred to in this Law is supervised by the Ministry of Finance through the Department for Public Sector Financial Inspection pursuant to the Law on Financial Inspection in the Public Sector.

In line with the data in the Electronic System for Reporting and Recording Liabilities, as of August 2024 inclusive, 1.400 active entities have been registered and active.

Under the reported due liabilities by groups of entities, arrears by groups of entities are indicated, covering 2017-2024 period and in line with the reported liabilities, one can notice that the liabilities in the month of June 2024 (the latest published quarterly data) compared to 2017, increased by 19.69% (Denar 19,687 million), whereas compared to 2023 (December), they increased by 67.17% (Denar 16,889 million).

Compared to 2107, increased liabilities have been recorded at six groups of entities: public health institutions, public enterprises/companies established by the Republic of North Macedonia, municipal public enterprises, regulatory bodies, planning regions and other entities, whereas reduced liabilities have been observed at four groups of entities: first-line budget users, second-line budget users – institutions at national level, municipalities and second-line spending units - local institutions financed via block grants.

Compared to 2023, liabilities have increased at all almost groups of entities, except for planning regions and other entities.

Table 16. Reported due liabilities by groups of entities in the period 2019-2024

| No | Group of Entities | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 06.2024 |
|----|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 | First-line budget users | 5,158 | 1,044 | 468 | 510 | 591 | 654 | 760 | 1,111 |
| 2 | Second-line budget users | | 326 | 106 | 96 | 130 | 74 | 256 | 337 |
| 3 | Municipalities | 4,613 | 5,248 | 3,306 | 3,698 | 4,252 | 4,084 | 3,613 | 3,748 |
| 4 | Spending units (local) - second-line budget users | 893 | 861 | 446 | 312 | 263 | 289 | 355 | 539 |
| 5 | Public health institutions | 3,183 | 2,868 | 2,726 | 2,757 | 4,187 | 5,224 | 3,770 | 4,637 |
| 6 | Public enterprises and state-owned companies | 6,045 | 4,509 | 5,962 | 7,418 | 11,059 | 9,769 | 10,301 | 20,124 |
| 7 | Municipal public enterprises | 2,454 | 3,263 | 3,600 | 2,961 | 3,630 | 4,666 | 4,679 | 11,443 |
| 8 | Regulatory authorities | 0 | 1 | 6 | 2 | 11 | 2 | 2 | 5 |
| 9 | Planning regions | 0 | 36 | 22 | 59 | 35 | 39 | 49 | 34 |
| 10 | Other entities | 0 | 583 | 54 | 6 | 1 | 1,028 | 1,360 | 53 |
| | Total: | 22,344 | 18,740 | 16,697 | 17,819 | 24,160 | 25,829 | 25,142 | 42,031 |

Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities

Note: Data pertain to the entities, having reporting such data

As per the type of expenditures, compared to 2019, arrears for reserves and non-defined expenditures, goods and services, capital expenditures and principal repayment have been increased, whereas expenditures for social benefits, interest payments, current transfers to extra-budgetary funds, subsidies and transfers, have been decreased.

Table 17 Reported due liabilities by types of expenditures in the period 2019-2024 (Denar million)

| Reported due liabilities by types of expenditures in the period 2019-2024 (Denar million) | | | | | | |
|---|--------|--------|--------|--------|--------|---------|
| Type of expenditures | 2019 | 2020 | 2021 | 2022 | 2023 | 06.2024 |
| Total: | 16,697 | 17,819 | 24,160 | 25,829 | 25,142 | 42,031 |
| 40 Wages and allowances | 647 | 664 | 577 | 668 | 496 | 632 |
| 41 Reserves and non-defined expenditures | 12 | 170 | 537 | 690 | 729 | 1,844 |
| 42 Goods and services | 10,566 | 10,211 | 12,990 | 16,570 | 16,784 | 24,985 |
| 43 Current transfers to extra-budgetary funds | 0 | 7 | 7 | 8 | 0 | 0 |
| 44 Current transfers to local government units | 2 | 0 | 0 | 1 | 0 | 0 |
| 45 Interest payments | 802 | 907 | 1,392 | 565 | 968 | 783 |
| 46 Subsidies and transfers | 1,280 | 1,214 | 1,308 | 1,019 | 1,022 | 1,249 |
| 47 Social benefits | 3 | 3 | 2 | 1 | 2 | 2 |
| 48. Capital expenditures | 2,763 | 3,026 | 3,470 | 3,353 | 2,870 | 4,767 |
| 49 Principal repayment | 621 | 1,618 | 3,877 | 2,953 | 2,272 | 7,769 |

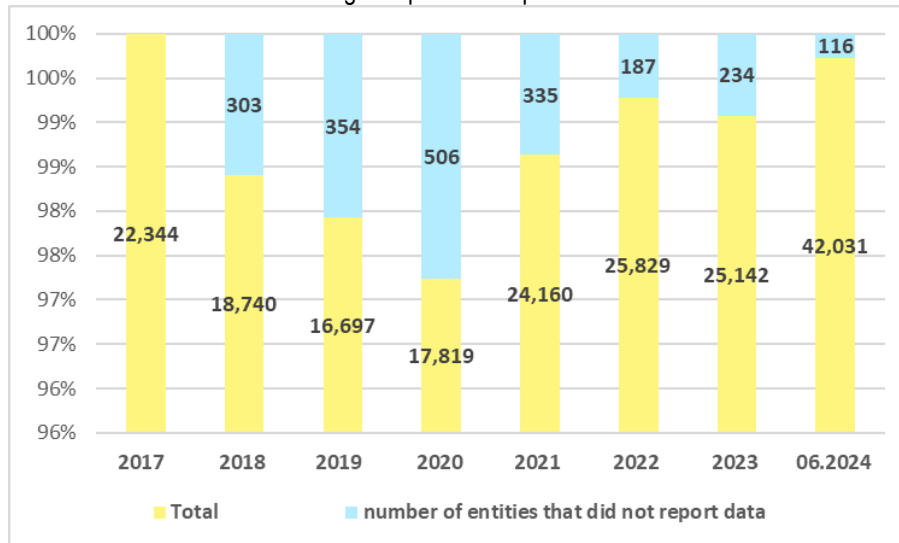
Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities

Note: Data pertain to the entities, having reporting such data

As for the latest reported monthly data (June 2024), arrears for goods and services, principal repayment and capital expenditures accounted for most of the total expenditures.

Chart 16 indicates total expenditures of arrears and number of entities failing to report the respective data. Most of the entities failing to report data were recorded in 2020, whereas the least number was recorded in June 2024.

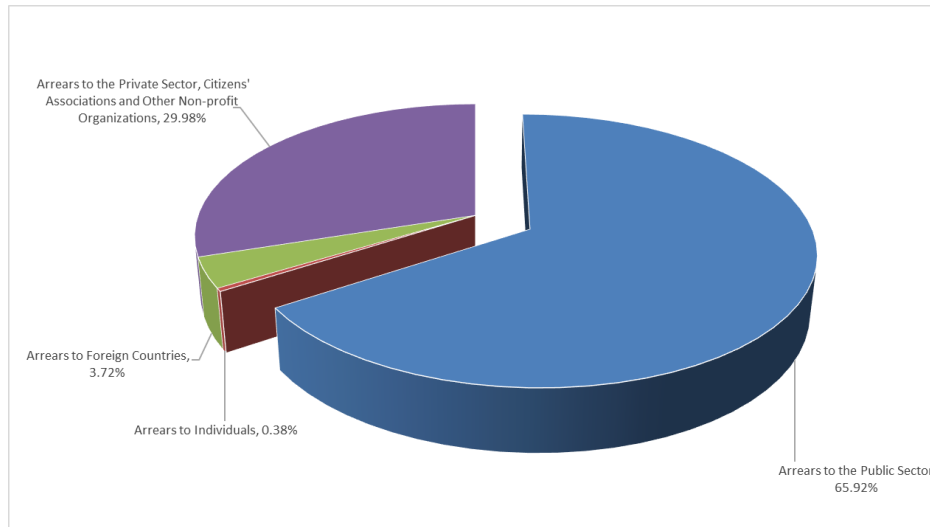
Chart 16. Number of entities failing to report the respective data



Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities

Reported due liabilities according to types of clients for the month of June 2024 are indicated in chart no.17. Liabilities to the public sector (65.92%) accounted for the most of total arrears, whereas liabilities reported to natural persons (0.38%) accounted for the least thereof.

Chart 17. Reported Liabilities by types of clients for the month of June 2024



Source: Ministry of Finance - Electronic System for Reporting and Recording Liabilities

Note: Data pertain to the entities, having reporting such data

4. Use of EU Pre-Accession Assistance

Republic of North Macedonia, as a candidate country for EU membership, is available funds under the EU Pre-Accession Assistance (IPA) Instrument. IPA funds have been planned under the following financial perspectives: IPA 2007 - 2013 Financial Perspective (IPA 1), IPA 2014 - 2020 Financial Perspective (IPA 2) and 2021-2027 (IPA 3) Financial Perspective.

This section of the document presents only the part of EU Pre-Accession Assistance implemented under the decentralised/indirect management method. IPA decentralised/indirect management method is a management method within which the European Commission (EC) entrusts tasks for implementation of certain IPA programmes to the accredited structure in the Republic of North Macedonia, such as tender procedures, contracting, project monitoring and execution of payments. On the other hand, when it is a matter of centralised management, these are responsibilities of the EC, via the Delegation of the European Union to North Macedonia.

Funds for national co-financing intended for projects implemented under the decentralised/indirect management are planned within the budget of the Ministry of Finance, organisational code 09002 - Functions of the State, except for the national co-financing necessary for financing the IPARD projects, which is planned within the budget of the Agency for Financial Support in Agriculture and Rural Development, organisational code 14004, as well as the national co-financing for payment of financial contribution to EC for participation in the Union Programmes, which is planned in the line ministries.

4.4.1 IPA 1 1 - 2007-2013 Financial Perspective

Within IPA 1 2007- 2013 Financial Perspective, Republic of North Macedonia has available, through the five IPA Components, funds in the amount of EUR 614 million (Denar 37.8 billion), around EUR 467 million (Denar 28.7 billion) out of which or around 76% of the total allocations are employed through the decentralised management method (through structures accredited by the EC services for indirect management of the European Funds).

4.4.2 IPA 2 1 - 2014-2020 Financial Perspective

Under IPA 2 2014 - 2020 Financial Perspective, Republic of North Macedonia has EUR 664 million available. With respect to the manner of implementation, around 50% of the total allocations under IPA 2 will be earmarked for projects planned to be implemented through indirect management system, i.e. through accredited IPA structures.

Awarded assistance will be used for financing projects in the following areas: justice and home affairs, road and railway infrastructure, environmental protection, education, employment, promotion of gender equality, human resources development and agriculture and rural development.

IPA funds under indirect management are implemented through the following annual and multi-annual programmes:

- 2014 Action Programme for financing projects in the following areas: Judiciary, Disaster Recovery System and ensuring business continuity, developing capacities for on-site inspections, entry tickets for the Union Programmes, local and regional competitiveness, by focusing on tourism and support for the EU integration (SEA).

- 2015 Action Programme, 2016 Action Programme, 2018 Action Programme and 2020 Action Programme for financing the entry tickets for EU Programmes;

- 2017 Action Programme for financing projects in the following areas: labour and education, entry ticket for the Union Programmes;

- Multi-Annual Sectoral Operational Programme of the Republic of North Macedonia for Environment and Climate Action 2014 – 2020;

- IPARD 2 Programme.

Under the 2014 Action Programme, EUR 20 million was made available to the Republic of North Macedonia, as IPA funds, which Programme was fully implemented with payments made in 2022.

Financing of projects in the field of road and rail transport, as well as projects for construction of wastewater treatment plants, sewerage networks and waste management and climate changes is envisaged within the Multi-Annual Sectoral Operational Programme of the Republic of North Macedonia for Environment, Climate Action and Transport.

As regards the environment and climate activities sector, IPA funds in the amount of EUR 114.95 million was allocated, whereby, IPA funds amounting to EUR 110.91 million was allocated for the Transport sector, additional EUR 39.9 million will be provided as national co-financing from the Budget of the Republic of North Macedonia and EUR 339.7 million will be provided via WBIF grant. The remaining approximate EUR 149 million will be provided via loans from international financial institutions. In line with the signed Financial Agreement for this Programme, deadline for concluding and completing the respective contracts thereunder is 31st December 2026.

Projects in the field of labour and education are financed within 2017 Action Programme, the aim of which is to reduce high unemployment rate, increase share on the labour market, in particular the one of young people and women, increase the access to quality education and training, improve the results and the skills and establish a modern and flexible social protection system. In order to achieve the general objective, several projects are envisaged in the following areas: Institutional strengthening of the capacities for sustainable sectoral reforms; improving the educational and training system; promoting the skill development, employment and working conditions; social protection, social inclusion and equal share on the labour market and the society.

IPARD 2 Programme supports projects that will provide for attaining EU standards introduced in the field of agricultural production, food processing and rural development. Total IPA funds in the amount of EUR 60 million are made available to the Republic of North Macedonia under this Programme. 2014 - 2020 IPARD Programme implementation is launched with 4 measures (Investments in fixed assets of agricultural holdings, Investments in fixed assets concerning processing and marketing of agricultural and fishery products, Farm diversification and business development and Technical assistance for Programme implementation), while preparation for accreditation of one more measure (Investments in rural public infrastructure) commenced. IPA 3 - 2021-2027 Financial Perspective

New 2021-2027 financial package is expected to be increased by 6% compared to the previous IPA 2 package. The focus under IPA 3 will be placed on several Investment Funds via grants and loans and greater convergence. In addition, under IPA 3, EU focus is placed on the cooperation with EIB and EBRD, as well as other international financial institutions, which will offer so-called "leverage" loans. IPA 3 should contribute to implementing the "Economic and Investment Plan for Western Balkans" adopted at the Summit in Zagreb in May 2020, aimed at spurring boosted medium-term recovery, job creation and intensifying trade between Western Balkan countries and EU Member States, via funding major infrastructure projects in the field of transport, environment, digitalisation and energy, having regional importance and enhancing the regional connectivity, as well as mature projects to be implemented in the next 4 years.

IPA 3 funds will be absorbed at national and regional level. Funds deployed under the Instrument for Pre-Accession Assistance IPA III for the 2021-2027 period, are envisaged to be used through 5 so-called "windows" as follows:

- Window 1: Rule of law, fundamental rights and democracy
- Window 2: Rule of law, acquis alignment, good neighbourly relations and strategic communication
- Window 3: Green agenda and sustainable connectivity
- Window 4: Competitiveness and inclusive growth
- Window 5: Territorial and cross-border cooperation

At national level, the available funds will range between the so-far EUR 80-100 million on annual basis. Under the national package, focus will remain on the start of the negotiations, adaptation of the administration to the intensive reform pace and the coordinative mechanisms, which should boost the negotiating process, in line with the new methodology of accession negotiations, grouping the negotiation chapters into clusters and aligning the use of IPA funds for supporting the process of negotiations and the structural reforms in the whole society. Amount of financial resources at national level will depend on the readiness of the administration to prepare relevant and mature projects arising from the needs of the EU integration process, political commitment to implementing these projects, since under IPA 3, the assistance could be modulated upwards or downwards among the beneficiary countries (Western Balkan countries and Turkey) within the so-called fair share.

At regional level, majority of the announced IPA 3 funds will be made available through the regional programmes, intended for providing support to the following sectors - transport, environment, energy, social support and digitisation. Therefore, it will be important for these sectors to implement their long-term strategies defining the national priorities, as well as the trends arising from the European agenda, such as digitisation, broadband and fast Internet, energy projects and transformation towards decarbonisation, renewable energy sources, gas infrastructure, circular economy, clean environment, private business guarantees and traffic connectivity, etc. Our country will still have available the funds under the Western Balkans Investment Framework upon the principle of so-called blending of grants and loans. Mature projects ready for implementation will have a priority to be financed. Thereby, the new Fiscal Strategy will be more eased as regards the borrowing of capital from international financial institutions.

Within the new Instrument for Pre-Accession Assistance (IPA 3), in line with the Financial Framework Partnership Agreement 2021 - 2027, a new system for indirect management of IPA funds was put in place. As for the Annual 2022 Action Programme, construction and modernisation of the wastewater treatment station systems have been foreseen via the indirect management system.

Within 2021 - 2027 IPARD Programme, Republic of North Macedonia is made available total of EUR 97 million as IPA funds, with a national co-financing in the amount of EUR 31,073,333. First public call was announced in September 2023.

4.3. List of Projects, Which are Planned to be Realised in the Period 2025–2029:

Multi-Annual Transport Programme;

- Works Contract and Services Contract - Construction of Road Section Gradsko - Intersection Drenovo as part of Road Corridor X-d; Supervision of Construction of Road Section Gradsko - Intersection Drenovo as part of Road Corridor X-d, implementation period as regards this Contract should be completed in the third quarter of 2025.

- Works Contract and Services Contract – Rehabilitation of State Road A2, Section Kumanovo - Stracin (phase 1); Supervision of Rehabilitation of State Road A2, Section Kumanovo - Stracin (phase 1), the implementation period as regards this Contract ended in the third quarter of 2024.

- Services Contract – Preparation of Project Documentation for Multi-Modal Knot Trubarevo, this Contract should be completed in the first quarter of 2025.

- Services Contract – City of Skopje Sustainable Urban Transport Plan, it is planned for the Contract to be concluded at the end of 2024 with 24-month implementation period.

Multi-Annual Action Programme on Environment and Climate Action;

- Services Contract - Enhancing the Capacities for NATURA 2000 and CITES, the Contract was concluded in 2022 with a 30-month implementation period.

- Services Contract - Support for Implementation of the Regional Waste Management Systems in the East and North-East Regions, the Contract was concluded in the fourth quarter of 2023 with an implementation period of 24 months.

- Service Contract - Preparing and Revising the National Waste Planning Documents, the Contract was concluded in the third quarter of 2023 with an 18-month implementation period.

- Service Contract - Support in Implementing the Legislation on Waste Management and Extended Producer Responsibility Scheme, while as of the fourth quarter of 2022, this Project has been under implementation for a period of 27 months.

- Service Contract - Support in Implementing the Air Quality Directives, this Contract should be concluded at the end of 2024 with a 24-month implementation period thereof.

- Twinning Contracts - Strengthening of the Capacity to Implement the Legislation on Environmental and Climate Change, Contracts were concluded, and they should be completed in the third quarter of 2025.

- Twinning Contract – Further Strengthening of the Capacities for Effective Implementation of the Acquis In the Field of Industrial Pollution, Contract was concluded in the first quarter of 2023 with a 23-month implementation period.

- Works Contract and Supervision Services Contract - Construction of Wastewater Treatment Plant in the Municipality of Bitola and Rehabilitation and Upgrading of the Sewage Network in the Municipality of Bitola, Supervision of the Works Contract for Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Bitola, Contract is planned to be concluded in the fourth quarter of 2024 with a 36-month implementation period.

- Works Contract and Supervision Services Contract - Construction of Wastewater Treatment Plant in the Municipality of Tetovo and Rehabilitation and Upgrading of the Sewage Network in the Municipality of Tetovo, Supervision of the Works Contract for Construction of Wastewater Treatment Plant and Rehabilitation and Upgrading of the Sewerage Network in the Municipality of Tetovo, Contract is planned to be concluded in the third quarter of 2024 with a 36-month implementation period.

- Supply Contract – Supply of Water Equipment for the Municipalities of Radovich, Kichevo, Strumica, Bitola, Tetovo, Berovo, Kumanovo and Prilep, it is planned for the Contract to be concluded in the first quarter of 2025 with a 24-month implementation period.

- Service Contract – Technical Revision on Major Wastewater Projects, the Contract should be concluded in the third quarter of 2025 with a 32-month implementation period.

- Works Contract and Supervision Services Contract - Closure of Non-Compliance Landfills and Dumpsites in the East Region - Lot 1, Supervision of the Works Contract for Closure of Non-Compliant Landfills and Dumpsites in the East and North-East Regions - First Phase, the Contract is under implementation, and it is expected to be completed in the third quarter of 2025.

- Works Contract - Closure of Non-Compliance Landfills and Dumpsite in the North-East Region - Lot 2. The Contract is to be concluded in the fourth quarter of 2024, with contract implementation period of 24 months.

- Works Contract and Supervision Services Contract - Construction of Central Waste Management Facility - Sorting Plant, MBT Plant, Landfill, Composting Plant, Green Point for the East and North-East Regions of Sveti Nikole and Construction of Six Local Waste Management Facilities: Transfer Stations, Composting Facilities and Green Points for the Eastern and North-East Regions;

- Supervision of the Works Contract for Establishment of Integrated and Self-Sustainable Regional Waste Management System in the East and North-East Regions. It is planned for this Contract to be concluded in the third quarter of 2025, with contract implementation period of 33 months.

- Service Contract - Technical Revision on Major Wastewater Projects, the Contract should be concluded in the third quarter of 2025 with a 32-month implementation period.

Service Contract – Evaluation of the Operational Programme, the Contract is planned to be concluded in the fourth quarter of 2025 with an implementation period of 12 months thereof.

Annual Action Programme 2017 - Education, Employment and Social Policy

- Service Contract – Raising the Quality of Pre-School Education And Care, being in the process of implementation with payments under the Programme until the fourth quarter of 2025.

- Service Contract – Improving the Working Conditions, being in the process of implementation, with payments under the Programme until the fourth quarter of 2025.

- Direct EARM Grant – Labour Market Activation of Vulnerable Categories, with payments under the Programme until the fourth quarter of 2025.

- Works Contract and Service Contract – Construction of Kindergartens in the Municipalities of Tetovo and Tearce and Supervision of the Works Contract, being in the process of implementation, with payments under the Programme until the fourth quarter of 2025.

- Twinning Contract - Further Support to the Implementation of the National Qualifications Framework, being in the process of implementation, with payments under the Programme until the fourth quarter of 2025.

- Service Contract - Improving the Education Quality, being in the process of implementation, with payments under the Programme until the fourth quarter of 2025.

- Service Contract - Increasing Attractiveness, Inclusiveness and Relevance of VET and Adult Education, being in the process of implementation, with payments under the Programme until the fourth quarter of 2025.

Annual Action Programme 2022

- Works Contract and Service Contract – Wastewater Collection and Treatment Investment Project in the

Municipality of Shtip – Lot 1, design and construction of wastewater treatment plant in the Municipality of Shtip and Lot 2, construction, rehabilitation and extension of sewerage network in the Municipality of Shtip, as well as supervision of the construction. It is planned for the Contracts to be concluded in the second quarter of 2025 with contract implementation period of 39 months.

- Works Contract and Service Contract - Connection of Vinica to Wastewater Treatment Plant Kochani, including Partial Rehabilitation and Extension of Sewerage and Stormwater Systems in the Municipality of Vinica, along with supervision over the construction. It is planned for the Contracts to be concluded in the second quarter of 2025 with contract implementation period of 39 months.

2014 – 2020 IPARD Programme

- Grant contracts in the field of agricultural production, food processing and rural development, for which 2395 contracts have been signed, out of nine public calls in total.

2021-2027 IPARD Programme

- Grant contracts in the field of agricultural production, food processing and rural development.

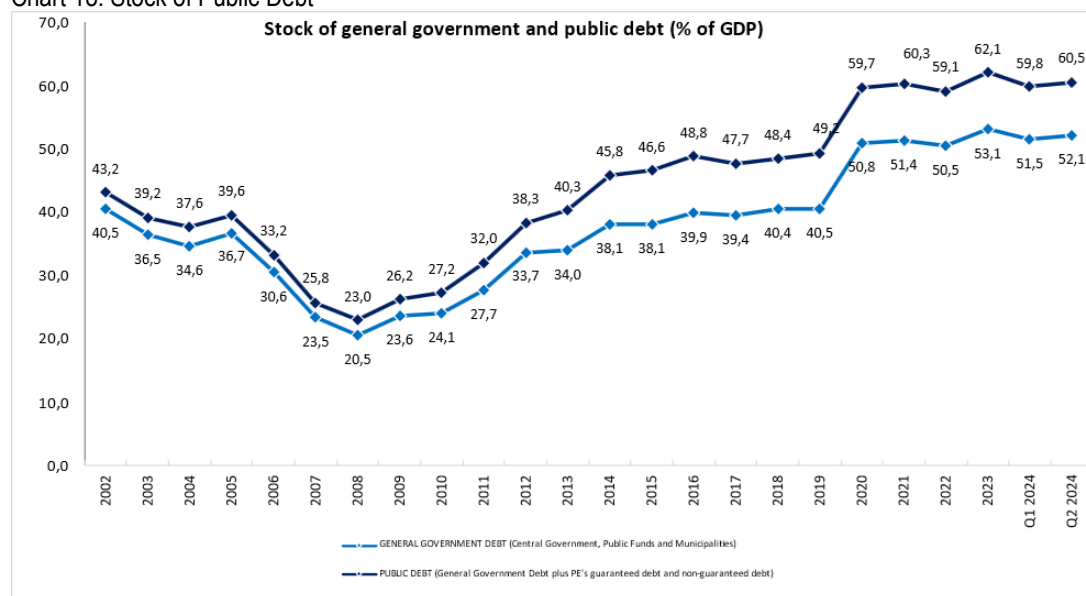
5. Public Debt

Efficient public debt management is of essential importance, encompassing reduced risks when designing the debt structure and the debt management policy, all to the end of preventing any possible inability to service the debt on regular basis and in a timely manner. Main objective of the public debt management policy is to ensure the funds necessary to finance the budget deficit and repay the due liabilities on the basis of prior borrowings, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country. Quality debt management, among other things, is determined on the basis of the institutional framework and the capacity to set and implement the public debt management policy. This implies clear definition of public debt management goals and measures.

5.1. Amount of Public and General Government Debt

General government debt amounted to EUR 7,642.1 million on 30th June 2024, i.e. it accounted for 52.1% of GDP. Central government debt accounted for the most in the general government debt, amounting to EUR 7,630.5 million, while the debt of the municipalities amounted to EUR 11.5 million. Total public debt comprises the general government debt and the debt of public enterprises and companies predominantly or fully owned by the state (guaranteed and non-guarantee debt), amounting to EUR 8,870.9 million on 30th June 2024, accounting for 60.5% of GDP.

Chart 18: Stock of Public Debt



Central government debt accounted for 99.8% of the total general government debt at the end of the second quarter of 2024, being managed directly by the Ministry of Finance. As regards the other levels of debt, such as debt of municipalities and debt of public enterprises and companies predominantly owned by the state of the municipalities, Ministry of Finance participates in the process of borrowing, however, it cannot influence the intensity of withdrawing the funds under the concluded loan agreements.

More thorough projections on general government and public debt trends will be presented in the 2025-2027 Public Debt Management Strategy (with prospects until 2029).

5.2. Guaranteed Debt and Risk of Sovereign Guarantees Distress

Process of issuance of new guarantees is strictly regulated and is subject to the borrowing procedure stipulated in the Law on Public Debt, according to which the claimants of guarantees should fulfill certain criteria so as for the state to issue a guarantee. According to the latest amendments to the 2019 Law on Public Debt, management of contingent liabilities was improved by strengthening the capacities as regards issuance of borrowing consents. In fact, Ministry of Finance performs credit analysis and assesses the creditworthiness of public debt issuers when issuing sovereign guarantee in line with the prescribed assessment methodology. Such approach provides for alignment with the international practice on issuance of sovereign guarantees.

As of 30th June 2024 inclusive, issued sovereign guarantees amounted to EUR 1,166.6 million, accounting for 8.0% of GDP.

Although the guaranteed debt is an integral part of the public debt and it is published in a transparent manner, Ministry of Finance takes into account the risk related to contingent liabilities, i.e. the effects on the Budget in case the sovereign guarantees are potentially called up. This segment is explained in more details in the section on fiscal risks, as an integral part of the Fiscal Strategy.

6. Comparative Analysis of Macroeconomic and Fiscal Projections for 2025 - 2029

6.1. Comparison with the Revised 2024- 2028 Fiscal Strategy

2025 - 2029 Fiscal Strategy of the Republic of North Macedonia, compared to the Revised 2024-2028 Fiscal Strategy of the Republic of North Macedonia demonstrates certain deviations as regards the macroeconomic projections. Thereby, one should take into account that the changes are due to both performance of domestic economy and trends in the external environment, as well as expectations about the next period. Data on GDP growth in 2023, published by SSO are significantly lower compared to the expectations (1% increase compared to the anticipated 2.3%), accompanied by the downward revision of the growth in 2024 in line with the performance in the first half of the year and the expectations for the external environment, being less unfavourable compared to before.

In the medium term, growth acceleration is expected, underpinned by the measures and the projects contained in the Government's Work Program. As for the economic activity growth composition, it is expected for growth to be driven by domestic demand, amidst positive contribution from both investments and consumption. On the other hand, net export is expected to have a negative contribution, which will be gradually narrowed, thus shifting to the positive zone, amidst stronger both export and import.

There are no significant deviations as regards inflation rate projections, i.e. inflation is expected to reach 2.0% in the analysed period.

As regards balance of payments, current account deficit has recorded downward revision in 2024, with no significant changes in the projections in the medium term.

With respect to labour market, deviations pertain to the prior projections, partly due to the revised data published in the Labour Force Survey processed in line with the forecasts on the population under the Census carried out in 2021, as well as the methodological changes applied in the Labour Force Survey starting 2023, which are not comparable to the previous data. As regards wages, projections have been revised upwards, in line with the performance generated in the course of 2024, as well as the expectations for further increase of wages in the private sector via productivity growth.

6.3 Comparative Analysis of Needs and Sources of Borrowing

In accordance with the projections for financing needs and sources of borrowing presented in the 2024 - 2028 Revised Fiscal Strategy, hereinafter referred to as 2024 – 2028 Revised Fiscal Strategy, actual execution of funds from foreign and domestic financing sources was lower than the projected one, accounting for 93.8% and 70.7% of the projections, respectively. In fact, amidst energy and economic crisis, being an issue of global scale over the past period, which appropriately affected the increase in interest rates on the international markets, in the course of 2023, Ministry provided sources for financing the budget deficit by international financial institutions. i.e. World Bank's loan in the amount of EUR 93.8 million, OPEC loan amounting to EUR 50.0 million and a KfW loan amounting to EUR 90.0 million. In addition, in March 2023, the Government issued the ninth Eurobond on the international capital market, amounting to EUR 500 million. On domestic market, net issuance of domestic securities amounted to Denar 33.2 billion.

Table 21. Review of projected and actual Central Government debt repayments and borrowing in 2023

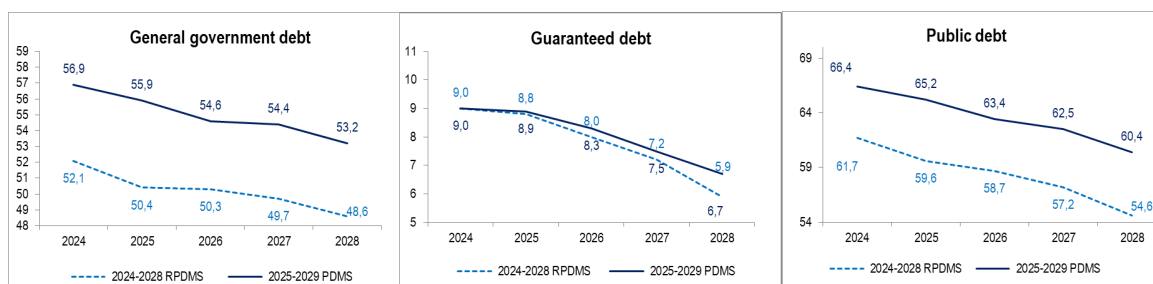
| Review of projected and actual Central Government debt repayments and borrowing in 2023 (Denar million) | | | | |
|--|-----------------------------------|--------|-----------|--------------------------|
| Basis | 2024-2028 Revised Fiscal Strategy | Actual | Deviation | Actual vs projection (%) |
| Foreign sources | 65,978 | 61,855 | -4,123 | 93.8% |
| Domestic sources | 51,114 | 36,156 | -14,958 | 70.7% |
| Repayment of principal | 52,215 | 43,588 | -8,627 | 83.5% |
| External debt | 36,551 | 36,114 | -437 | 98.8% |
| Domestic debt | 15,664 | 7,474 | -8,190 | 47.7% |

2024 borrowing projected in this Fiscal Strategy, compared to the one projected in the 2024-2028 Revised Fiscal Strategy differ in terms of the amount of domestic borrowing and structure of foreign borrowing. In fact, as per the 2024-2028 Revised Fiscal Strategy, funds in the amount of Denar 43,164 million were projected as borrowing abroad on the international capital market in the form of Eurobond, also including disbursement of loans from international financial institutions for financing deficit and projects that are implemented by budget users. However, by having into account the global trends of interest rate, which have been significantly increased compared to the previous years, at the beginning of 2024, Ministry of Finance disbursed the second tranche under the IMF Precautionary and Liquidity Line (PLL), accompanied by the budget financing with a Loan Facility from Hungarian Export Import Bank Private Limited Company, amounting to EUR 500 million with more favourable terms and conditions than those offered via other potential borrowing on the international capital market. Domestic borrowing increased, whereby the maximum net borrowing amounted to Denar 37.4 billion. As regards medium-term borrowing, amount of foreign borrowing remained unchanged, whereas financing from domestic sources increased compared to the 2024-2028 Revised Fiscal Strategy.

In line with the aforementioned, the change of the amounts of financing sources is reflected in both general government debt and public debt. In fact, revised financing needs are projected in the 2025 - 2027 Public Debt Management Strategy (with prospects until 2029), followed by a comparative analysis of the level of both general government debt and public debt in relation to GDP, compared to the 2024 -2028 Revised Public Debt Management Strategy.

| | 2024-2028 RPDMS | | | | | 2025-2029 PDMS | | | | | deviation (in p.p) | | | | |
|-------------------------|---|------|------|------|------|---|------|------|------|------|--------------------|------|------|------|------|
| | Revised 2024-2026 public debt management strategy | | | | | 2025-2029 public debt management strategy | | | | | | | | | |
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2024 | 2025 | 2026 | 2027 | 2028 | 2024 | 2025 | 2026 | 2027 | 2028 |
| as % of GDP | | | | | | | | | | | | | | | |
| General Government debt | 52,1 | 50,4 | 50,3 | 49,7 | 48,6 | 56,9 | 55,9 | 54,6 | 54,4 | 53,2 | 4,8 | 5,5 | 4,3 | 4,7 | 4,6 |
| Guaranteed debt | 9,0 | 8,8 | 8,0 | 7,2 | 5,9 | 9,0 | 8,9 | 8,3 | 7,5 | 6,7 | 0,0 | 0,1 | 0,3 | 0,3 | 0,8 |
| Public debt | 61,7 | 59,6 | 58,7 | 57,2 | 54,6 | 66,4 | 65,2 | 63,4 | 62,5 | 60,4 | 4,7 | 5,6 | 4,7 | 5,3 | 5,8 |

Source: Ministry of Finance and projection of Ministry of Finance (*)



6.4 Comparison of the EU Instrument for Pre-Accession Assistance (IPA) under 2023 State Budget and its Execution with 2022 State Budget and its Execution, as well as a Qualitative and Quantitative Explanation of the Main Deviations

As for 2023 Budget, as regards EU Integration segment, total of Denar 101 million was allocated as mandatory national co-financing for implementation of IPA-funded projects, as well as additional Denar 1,597 million as donations. Out of the total funds allocated under the 2023 Budget, 87% of the projected national financing and 38% of the projected donations were used. Despite the global pandemic, under Rural Development Programme (IPARD), sound execution of the respective funds was recorded as a result of the considerable interest by the end users, as evidenced by the great number of submitted applications and signed agreements with the Agency for Financial Support in Agriculture and Rural Development.

amounts expressed in Denar thousand

| Areas | 2022 Budget | 2022 execution | % 2022 execution vs 2022 Budget | 2023 Budget | 2023 execution | % 2023 execution vs 2023 Budget |
|---|-------------|----------------|---------------------------------|-------------|----------------|---------------------------------|
| Programme | | | | | | |
| Transport, Environment, Education, Employment | | | | | | |
| ME/Account 603 | 129,044 | 119,76 | 92.80% | 100,922 | 87,963 | 87% |
| ME/Account 785 | 1,100,707 | 782,778 | 71.11% | 1,597,560 | 613,335 | 38% |
| MV/Account 603 | 38,789 | 7,837 | 20% | 2,000 | 1,618 | 81% |
| Loan from EIB and EBRD MV/account 786 | 67 | 63,197 | 94.32% | / | / | / |
| Rural Development | | | | | | |
| MD/Account 785 | 842,676 | 825,246 | 97.92% | 805,090 | 616,383 | 77% |

6.5. Comparison of the Projections of the EU Instrument for Pre-Accession Assistance (IPA) in the Previous Fiscal Strategy with the Projections in the new Fiscal Strategy, as well as Qualitative and Quantitative Explanation of the Major Changes, Including Changes in the Policies

As for ME Programmes, under 2025-2029 Fiscal Strategy, increased budget funds have been foreseen since all agreements, which are to be concluded under IPA 2 Programmes, will be in process of realisation or in final implementation stage, whereby implementation of the agreements in the field of environment, under IPA 3 Programme will commence as well. Reduction of the funds on the basis of IPA donations was due to the cancellation of the Project "Construction of Rail Section from Kriva Palanka - Border with the Republic of Bulgaria; Supervision of the Construction of the Rail Section from Kriva Palanka - Border with the Republic of Bulgaria".

Under Rural Development Programme (IPARD), projected funds in the 2025-2029 Fiscal Strategy are increased by 400% compared to the previous Fiscal Strategy as a result of the commenced implementation of the new IPARD 3 Programme, wherein the amount of contracts concluded with the farmers, as well as the payments made thereupon during 2025, will reach EUR 15 million.

Amounts expressed in Denar thousand

| | 2024-2028 Fiscal Strategy | 2025 – 2029 Fiscal Strategy | % changes in the projections |
|----------------|---------------------------|-----------------------------|------------------------------|
| ME/Account 603 | 5,070,195 | 6,051,134 | 12% |
| ME/Account 785 | 28,015,738 | 6,565,485 | -43% |
| MD/Account 785 | 981,461 | 3,833,260 | 400% |

7. Fiscal Risks and Sensitivity Analysis

Fiscal risks represent the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework, most often caused by macroeconomic shocks and execution of any contingent liabilities. Possible materialisation of these risks, assuming conditions different from those taken as basis for the medium-term projections discussed above, would result in deviations from the medium-term baseline scenario, i.e. different performance of the key fiscal variables. Sources of fiscal risks specific to our country are: macroeconomic risks, public enterprises and state-owned companies, implementation of public investments and PPP, municipalities, public debt and unrepaid liabilities, legal claims against the state and environmental risks.

Therefore, this section of the Fiscal Strategy analyses the potential effects on the budget deficit and the general government debt in case any of the major macro-fiscal risks materialise.

7.1 Macroeconomic Risk Analysis

Over the past period, the country's economic activity was under the influence of the challenges and the uncertainties triggered by the global factors, adversely affecting the prospects for growth of both global and domestic economy. Country's economic activity significantly contracted in 2020 due to the COVID-19 spread, the state of emergency declared in March the same year, as well as the negative economic implications from the implementation of the measures for preventing the pandemic spread, whereby similar measures were also undertaken on a global scale, thus resulting in considerably weakened economic activities. Throughout 2020, highest economic activity drop was seen at the sectors: industrial production, construction, trade, transport and hospitality industry services. During 2023, domestic economy recovered in line with the expectations, whereby in the course of 2022, prospects for growth of domestic economy were largely subdued from the global developments, above all the war in Ukraine, accompanied by the deepened energy crisis, the rising prices of energy products and food on international markets, along with the tightened financial conditions in response to the reinforced inflation expectations. Against such background and by taking into account the slowed down activity and the negative growth rates at the economies, which are the major trade partners of the country, as well as the disrupted global supply chains, in 2023, domestic economy picked up by 1.0%, being lower than the expectations.

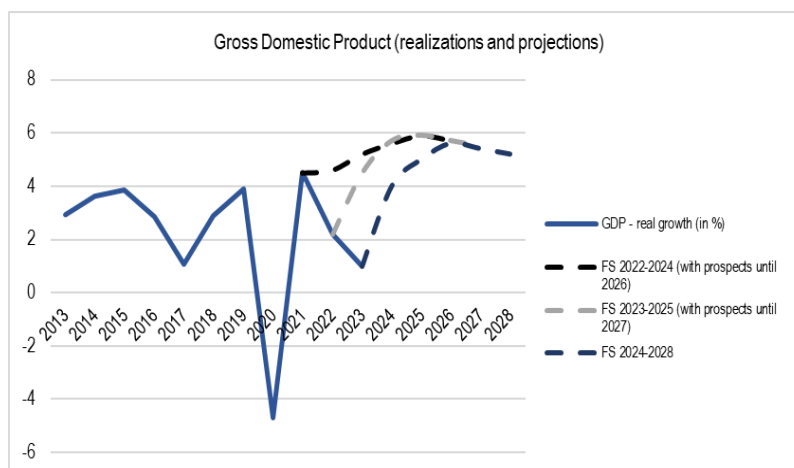
During the analysed 2019-2023 period, inflation rate in the country was low and stable, except for 2022 and 2023, when it was higher than the projected amounts resulting from the price pressures on the supply side triggered by global factors. High prices of primary commodities on international markets were spilled over to the domestic economy, mostly via increased prices of food products, electricity and oil derivatives.

Table 22. Review of macroeconomic indicators by years

| | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------|-----------|------|------|------|------|------|
| Real GDP growth rate (%) | projected | 3.2 | 3.8 | 4.1 | 4.6 | 2.9 |
| | realised | 3.9 | -4.7 | 4.5 | 2.2 | 1.0 |
| Inflation (%) | projected | 2.0 | 1.7 | 1.5 | 2.4 | 7.1 |
| | realised | 0.8 | 1.2 | 3.2 | 14.2 | 9.4 |
| Budget deficit (% of GDP) | projected | -2.5 | -2.3 | -4.9 | -4.3 | -4.6 |
| | realised | -2.0 | -8.0 | -5.3 | -4.4 | -4.9 |

| | | | | | | |
|---------------------------------------|-----------|------|------|------|------|------|
| General government debt (as % of GDP) | projected | 43.3 | 40.9 | 53.2 | 53.4 | 51.1 |
| | actual | 40.5 | 50.8 | 51.4 | 50.5 | 53.1 |
| Public debt (as % of GDP) | projected | 53.3 | 50.4 | 63.4 | 63.5 | 60.6 |
| | actual | 49.2 | 59.7 | 60.3 | 59.1 | 62.1 |

Source: Ministry of Finance (State Budget and Fiscal Strategy, by years) and State Statistics Office



This section of the Fiscal Strategy provides an overview of the sensitivity analysis' results pertaining to the sensitivity of the budget deficit and the level of general government debt in the event of potential materialisation of the four main identified risks for the medium-term fiscal policy. Thereby, all risks are analysed separately, and all scenarios assume absence of other deviations from the baseline scenario and occurrence of the particular risks only:

Scenario 1 - Reduced economic growth;

Scenario 2 - Lower tax revenues by 5%;

Scenario 3 - Lower execution of capital expenditures by 25%;

Scenario 4 - servicing the liabilities on the basis of issued guarantees with State Budget funds.

Given that the medium-term baseline fiscal projection is based on particular macroeconomic assumptions, they are considered to be primary factor with a potential effect on the fiscal trends. Hence, as a first risk scenario, we assume downside risks related to the geopolitical tensions, i.e. the conflicts in Ukraine and in the Middle East, the economic activity at major trade partners to materialise, as well as the domestic risks, as potential further delay of the implementation of major infrastructure projects. Such scenario implies projection of an average growth of GDP in real terms in the 2025 – 2029 period to be 1.1 p.p. lower than the baseline scenario projection. Thereby, the potential lower economic growth would also imply a lower performance of the cyclical component of the budget revenues. Hence, compared to the baseline projection, this scenario would result in a higher budget deficit by 0.4 p.p. of GDP on average on annual basis in the period between 2025 and 2029, whereas the general government debt would be higher by 4.6 p.p. of GDP at the end of 2029.

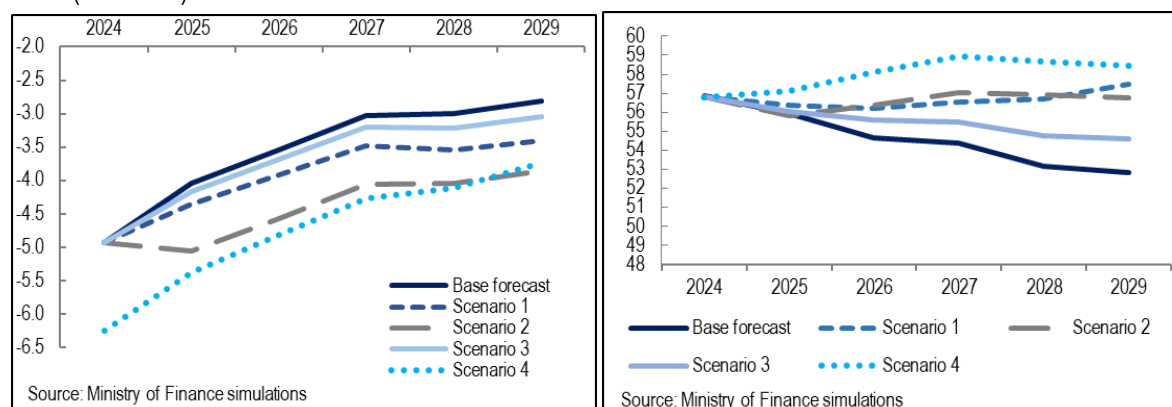
Second risk scenario assumes lower collection of tax revenues by 5% compared to the baseline projection. Against a background of unchanged level of budget expenditures and unchanged economic growth, lowered tax revenues would lead to increased budget deficit by 1.0 p.p. of GDP on average on annual basis in the period 2025 – 2029 compared to the baseline projection, whereas general government debt would be higher by 3.9 p.p. of GDP at the end of 2029 compared to baseline projection.

Third risk scenario assumes lower execution of capital expenditures, accounting for 75% compared to the projections in the baseline scenario, which is similar to their execution in the past. Lower execution of capital expenditures would adversely affect the gross investment growth, also reflecting on the economic growth compared to the baseline scenario, dropping by 0.4 p.p. on average on annual basis. This scenario would also have negative implications on the tax revenues, the performance of which would be lower compared to the expenditure execution. Hence, under this scenario, budget deficit would be higher by 0.2 p.p. of the GDP on average on annual basis in the forecasting period compared to the baseline projection, whereas the general government debt would be higher by 1.8 p.p. of GDP at the end of 2029 compared to the baseline projection.

Fourth risk scenario assumes sovereign guarantees' principal and interest liabilities to be fully serviced by the State Budget, being an extreme assumption. Possible materialisation of such extreme scenario would result in increase in budget expenditures in the coming period. Against a background of unchanged level of budget revenues and unchanged economic growth, this would cause an increase of budget deficit by 1.2 p.p. of GDP on average on annual basis in the period 2024 - 2029 compared to the baseline projection, whereas the general government debt at the end of 2029 would be higher by 5.6 p.p. compared to the baseline projection. Thereby, the effect of this scenario on the debt would be felt throughout the entire medium-term period.

In summary, realisation of any of the four risk scenarios, reflecting the main identified macro-fiscal risks in the coming period, would mostly result in relatively limited effects on the budget deficit and the general government debt (Chart attached below). More precisely, sustainability of fiscal policy in the medium run is in no case jeopardised.

Chart 19: Sensitivity Analysis of Budget Deficit (left) and General Government Debt (right) of the Main Macro-Fiscal Risks (% of GDP)



7.2 Public Debt⁵

Risks to which general government debt and public debt are exposed are thoroughly elaborated in the Public Debt Management Strategy (PDMS), containing forecasts for the general government and public debts dynamics in the medium run, while determining the short-term and medium-term limits and targets for the indicators, pertaining to the risks to which the debt portfolio is exposed, which ultimate goal is optimising the debt structure, all to the end of achieving the lowest possible costs with moderate level of risk. In addition, the precise projections of interest-related costs when preparing the State Budget have significantly contributed to accomplishing this purpose.

On the basis of the data in the table showing the projected and executed amounts of interest-related costs in the period 2019-2023, it is evident that the spent costs range within the projected amounts, with minor discrepancies in certain years. From the aspect of share of interest-related costs in GDP, one may conclude that in the 2019-2021 period, share of interests in GDP is maintained at 1.2% of GDP, registering minor drop by 0.1 p.p. In 2022. As a result of the increase in interest rates on financial markets accompanied by slowed down economic growth caused by the stagnated global economy in 2023, share of interest-related costs in GDP this year increased, reaching 1.4%.

⁵For the purpose of this section, public debt and general government debt are defined in line with the National Methodology set in the Law on Public Debt, as per which general government debt covers all liabilities incurred on the basis of indebtedness by the central government entities, local government and extra-budgetary funds, whereby public debt covers liabilities incurred on the basis of general government debt and debt of public enterprises founded by the state or the municipalities.

Table 23. Projected and executed interest-related costs in the 2019-2023 period

| Year | Projection | | Actual | |
|------|---------------|----------|---------------|----------|
| | (EUR million) | % of GDP | (EUR million) | % of GDP |
| 2019 | 149,3 | 1.3% | 131.7 | 1.2% |
| 2020 | 134,1 | 1.2% | 130.2 | 1.2% |
| 2021 | 153,8 | 1.3% | 147.4 | 1.2% |
| 2022 | 163,4 | 1.3% | 148.3 | 1.1% |
| 2023 | 209,7 | 1.4% | 209.6 | 1.4% |

Market risks stemming from the changes of interest rates on domestic and international financial markets (interest risk), as well as exchange rate risk pose a significant challenge in the public debt management, and consequently, the management of risks, to which it is exposed.

Hence, one of the main focuses of PDMS is maintaining optimal interest structure of the general government debt, all to the end of its protection against the negative fluctuations of the interest rates, which will lead to higher interest-related costs in the State Budget. To that end, as per the interest structure limit determined in PDMS, covering the period 2025-2029, minimum threshold of fixed interest rate debt is set at 60%, thus maintaining the stable trend of projected interest-related costs and their share in relation to GDP.

Risks arising from the changes of foreign exchange rates pertain to the portion of the debt portfolio indexed or denominated in foreign currencies, being reflected on both the level of debt and the amount of interest-related costs. Although the majority (93.7% on 30th June 2024) of the general government debt portfolio is denominated in euros, due to the de facto fixed exchange rate of the denar in relation to the euro, one may conclude that this risk was considerably cushioned.

For the purpose of assessing the market risks of external general government debt, sensitivity analysis has been prepared, pertaining to costs on the basis of interest on external general government debt in conditions of change, increase of interest rates by 1 p.p., as well as amongst decrease of the value of the euro by 10% compared to other currencies (Table attached below).

Table 24: Sensitivity analysis of costs pertaining to costs on the basis of interest on external general government debt in cases of changes in the interest rate and foreign exchange rates

| | | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|-------------|-------|-------|-------|-------|-------|
| Baseline scenario | EUR million | 168,6 | 158,7 | 160,7 | 154,6 | 179,2 |
| | % of GDP | 1.1 | 0.9 | 0.9 | 0.8 | 0. |
| Scenario I - increase of corresponding interest rates by 1 percentage point | EUR million | 179,3 | 168,3 | 170,0 | 162,6 | 185,8 |
| | % of GDP | 1.1 | 1.0 | 0.9 | 0.8 | 0.9 |
| Scenario II - depreciation of euro in relation to other currencies by 10% | EUR million | 181,2 | 169,9 | 171,2 | 163,2 | 186,0 |
| | % of GDP | 1.1 | 1.0 | 0.9 | 0.8 | 0.9 |

On the basis of the results presented in the table above, one can conclude that the costs on the basis of interest on the external debt are equally susceptible to the unfavourable trends of interest rates on financial markets, as well as the foreign exchange rate of the euro in relation to the other currencies. In fact, in case interest rates increased by 1 p.p. in the period 2025-2029, costs on the basis of interest on the external general government debt will surge by EUR 8.8 million (from EUR 10,6 million in 2025 to EUR 6,5 million in 2029) in average, whereby in case of depreciation of the euro in relation to other currencies by 10%, interest-related costs will increase by EUR 9,9 million (from EUR 12,5 million in 2025 to EUR 6,7 million in 2029) in average.

7.3 Sovereign Guarantees

Sovereign guarantee is the contingent liability assumed by the Republic of North Macedonia behalf of the public debt issuer, for the account of which the guarantee is being issued.⁶

On 30th June 2024, sovereign guarantees amounted to EUR 1,166.6 million, accounting for 8.0% of GDP, slightly increasing in relation to end-2023.

Table 25. Stock of Sovereign Guarantees on 30th June 2024

| Main Debtor | EUR million | % of total | % of GDP |
|--|-------------|------------|----------|
| JSC Power Plants of North Macedonia (AD ESM) | 102.4 | 8.8 | 0.7 |
| JSC for Electricity Transmission and Power System Control (AD MEPSO) | 7.1 | 0.6 | 0.05 |
| Development Bank of North Macedonia | 232.0 | 19.9 | 1.6 |
| Macedonian Railways Transport JSC | 17.3 | 1.5 | 0.1 |
| Public Enterprise for State Roads | 801.5 | 68.7 | 5.5 |
| Public Transport Enterprise Skopje | 6.4 | 0.5 | 0.04 |
| Total | 1,166.6 | 100.0 | 8.0 |

Taking into account the contingent liability in the State Budget arising from sovereign guarantees, caution is to be taken for their sustainability. In fact, considering the many guarantees issued for loans extended to the Public Enterprise for State Roads, intended for financing road infrastructure projects, categorised as being of high risk, maintaining sustainable level of the issued guarantees is crucial, adhering thereby to the limit set under the Public Debt Management Strategy, which limit should not exceed 15% of GDP over the medium term (2025 - 2029).

As regards caution to be undertaken, process of issuance of sovereign guarantees is regulated under the Law on Public Debt and the respective bylaws. According to these acts, when making decision on issuance of sovereign guarantee, the Ministry of Finance is to carry out a credit analysis, i.e. to assess the creditworthiness of the public debt issuer, by assessing its liquidity, solvency and profitability. Thus, managing contingent liabilities has been significantly improved and aligned with the international practice on issuance of sovereign guarantees.

7.4 State-Owned Enterprises

State-owned enterprises play a vital role in providing social value and encouraging economic growth, at the same time being a potential source of fiscal risk which could result in certain deviations from the medium-term baseline scenario.

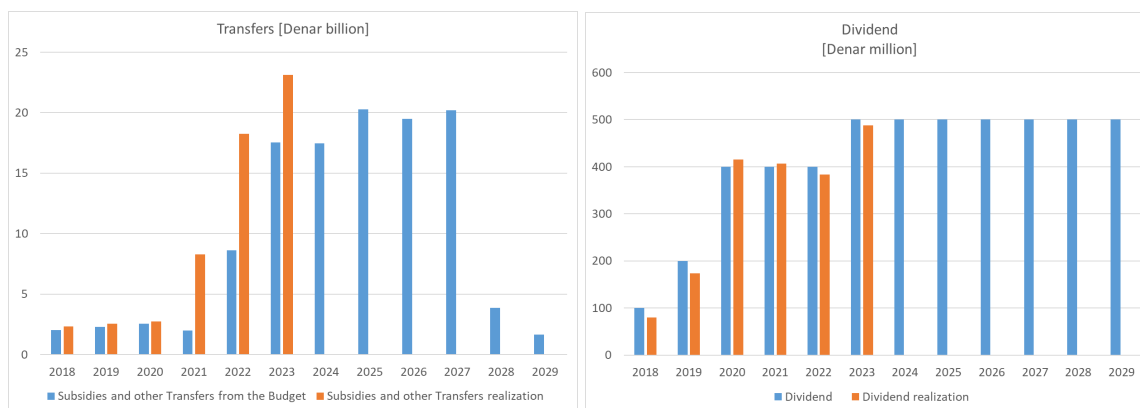
This type of fiscal risk usually occurs when budget transfers from SOEs are lower than expected and budget transfers to SOEs are higher than projected.

Deviations on the revenue side appear when state-owned enterprises make lower-than-projected dividend payments and revenue collection, as well as lower-than-projected payments related to servicing the debt on the basis of on-lending.

On the other hand, payments from the State Budget to the SOEs are higher than the projected when payments are to be made for higher-than expected subsidies, loans or capital transfers, as well as payments arising from contingent liabilities. This is most often a result of the risks materialising at the SOEs due to, for instance, deterioration of the economic performances, changes in the exchange rate or the commodity prices, regulated tariffs insufficient to cover the costs or not adjusting quickly to the tariff changes, risks related to implementing major reforms in the sectors in which state-owned enterprises operate, etc. There are total of thirty SOEs at central level, outside the general government, being classified as public entities.

Charts below present the projected budget transfers and the budget transfers made to and from SOEs in the period 2018 - 2029, all to the end of detecting the discrepancies and their effect on medium-term budget projections.

⁶ Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11, and "Official Gazette of the Republic of North Macedonia", nos. 98/19 and 151/21)



Deviations were registered at the subsidies and other transfers from the Budget to the SOEs in the period 2021 - 2023, above all, due to the consequences from the health, energy and economic crises, adversely affecting the financial performance of most of the SOEs, which led to an increase of both the losses at the entities operating at a loss already and the scope of state-owned enterprises which had no problems, until then, in maintaining liquidity and settling the due liabilities on time. Hence, most of the unprojected budget transfers were made to the state-owned Power Plants of North Macedonia (ESM) for subsidising the electricity price, with small portion of such transfers pertaining to financial support to certain SOEs (Macedonian Railways Transport JSC, JSC Water Economy, JSC Post of North Macedonia, National Forests Public Enterprise). Despite the fiscal pressure, state-owned enterprises were an important instrument in eliminating the negative economic and financial impact of the pandemic and the energy crisis, above all, for the vulnerable categories. Thus, by giving subsidies to the state-owned Power Plants of North Macedonia (ESM), the Government ensured lower than the market electricity prices during the crisis period, as well as undisrupted electricity and heating supply to the households and the small consumers. During the health crisis, Boris Trajkovski LLC (sole proprietor) generated no revenues, since its sports hall was used as a mass vaccination center amid the pandemic. SOEs having generating profit paid in the profit in the State Budget or extended it as a loan to the state-owned Power Plants of North Macedonia (ESM).

SOEs faced challenges at the beginning of 2024 as well, due to which most of the enterprises continued to rely on subsidies. Medium-term projections for budget transfers to the respective Sector in the period 2025 - 2029 show an increase, primarily as a result of the planned budget transfers to PESR for the construction of Corridors 8 and 10.

Table below presents aggregated data on the financial status of the SOEs for the period 2018 - 2022.

Table 26. Summary Data on the Financial Operations of SOEs

| | Denar million | | | | |
|---------------------------|---------------|---------|---------|---------|---------|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| Total Revenues | 37,437 | 36,428 | 32,228 | 37,458 | 59,582 |
| EBITDA | 6,309 | 3,918 | -94 | 2,088 | 9,509 |
| Net Profit | 3,509 | 2,229 | 1,759 | -1,374 | 6,576 |
| Total Assets | 304,253 | 315,806 | 317,459 | 326,675 | 342,944 |
| Total Current Assets | 26,112 | 27,353 | 23,154 | 25,687 | 33,333 |
| Total Liabilities | 96,190 | 106,301 | 106,415 | 117,037 | 126,578 |
| Total Current Liabilities | 18,906 | 19,710 | 23,201 | 26,598 | 27,383 |
| Total Equity | 208,062 | 209,505 | 211,043 | 209,638 | 216,366 |

Major fiscal risk for the SOEs is the liabilities which, in the period 2018 - 2022, continuously increased, while in 2023, they started to decline (declining by 21.9% in relation to 2022).

Ministry of Finance continues strengthening the country's fiscal transparency, including the reporting of fiscal risks of the state-owned enterprises. The goal is to provide a clearer and more detailed insight in the financial status and the efficiency of the operations and the management of state-owned enterprises, thus providing for making proper decisions and building sound foundation on which SOEs can positively contribute to sustainable economic growth in the country.

7.5 Local Government

In the course of their operations, municipalities face many challenges related to revenue collection and expenditure execution. As a result of certain factors, of objective or subjective nature, fiscal risks occur when collecting revenues and executing expenditures.

| Overview of realized revenues and expenditures compared to planned revenues and expenditures in the Fiscal Strategy | | | | | | | | | | | | | in millions of denars | | |
|---|--------------|-------------|----------------|---------------|-------------|----------------|---------------|-------------|----------------|--------------|-------------|----------------|-----------------------|-------------|----------------|
| Fiscal strategy | 2019 | | | 2020 | | | 2021 | | | 2022 | | | 2023 | | |
| | FS 2020-2022 | realization | % of deviation | RFS 2021-2025 | realization | % of deviation | RFS 2022-2026 | realization | % of deviation | RFS2023-2027 | realization | % of deviation | RFS 2024-2028 | realization | % of deviation |
| Revenue | 36.314 | 33.837 | 6,8 | 44.586 | 34.355 | 22,9 | 46.970 | 38.366 | 18,3 | 46.683 | 38.716 | 17,1 | 49.902 | 46.657 | 6,5 |
| Expenditure | 39.745 | 35.069 | 11,8 | 44.051 | 33.794 | 23,3 | 46.609 | 38.527 | 17,3 | 46.683 | 38.911 | 16,6 | 49.902 | 43.796 | 12,2 |

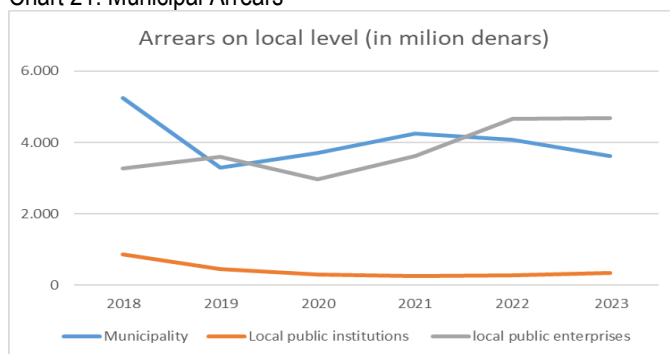
Data on municipal revenues and expenditures, projected under the Fiscal Strategy, when compared to the collected revenues and the executed expenditures, show deviations.

In addition to the above-mentioned, financial performance of municipalities entails risks, in most part occurring as increased arrears and meeting the criteria for declaring financial instability. Moreover, financial performance of municipalities is also affected by the arrears of the local public institutions and the local public enterprises.

In line with the data from the Electronic System for Reporting and Recording Liabilities for the analyzed period, total arrears of the municipalities amounted to Denar 3,613 million in 2023, declining in relation to 2022. Arrears in the highest amount of Denar 5,248 million were recorded in 2018, declining to Denar 3,306 million in 2019 as a result of the Government's financial support aimed at covering the arrears, which amounted to around Denar 3 billion. However, in the period 2020 - 2022, arrears increased, recording a slight decline in 2023.

Analysis of the data on arrears, reported through the Electronic System for Reporting and Recording Liabilities, and their share in the total revenues collected in the current year, showed that, in 2023, arrears of seven municipalities were higher than the revenues collected, indicating a severe disruption of the financial performance of these municipalities. Moreover, the arrears recorded at two municipalities exceeded 50% of the revenues collected. Analysis of the data on arrears in the period 2018 - 2023 showed that 10 - 12 municipalities recorded, continuously or with short interruptions, high arrears.

Chart 21. Municipal Arrears



Local public institutions recorded arrears in the highest amount of Denar 861 million in 2018, but, as a result of the Government's financial support in 2019, they declined to Denar 446 million, with the downward trend continuing in the period 2020 - 2023 as well, ranging, with relatively minor fluctuations, between Denar 263 million and Denar 355 million.

As regards local public enterprises, high amounts of arrears were recorded, continuously increasing since 2018, when they amounted to Denar 3,263 million, to Denar 4,679 million in 2023, declining to Denar 2,961 million in 2020. Out of the total of 140 active local public enterprises, arrears amounting to more than Denar 3,500 million were incurred by 12 of these enterprises in the following municipalities: Gostivar, Tetovo, Kumanovo, Struga, Strumica, Ohrid and the City of Skopje. Such high amounts of arrears incurred by the local public enterprises indirectly jeopardise the financial performance of the municipalities, which are to allocate funds from their municipal budgets so as to support these enterprises

Ministry of Finance monitors the financial performance of the municipalities on quarterly basis based on the periodic financial reports on arrears and the data on blocked accounts. Under the latest modifications to the Law on Financing Local Self-Government Units, one of the requirements for declaring financial instability is tightened, i.e. starting 2024, percentage (80%) of total arrears exceeding over 60 days in a six-month period, continuously every

month, as of the end of the each respective month inclusive, is decreased and it is not to exceed 60% of the municipality's core budget revenues collected in the previous year. This percentage in 2023 should not exceed 70% of the municipality's core budget revenues collected in the previous year.

According to Q2 2024 data, 11 municipalities met the criteria for declaring financial instability. In order to overcome the financial instability, Ministry of Finance gives the possibility for the municipalities to apply one of the three credit instruments, all to the end of overcoming the problems with the arrears, as follows: using stand-by credit extended by the Ministry of Finance, issuance of municipal bond with the Ministry of Finance as purchaser and issuance of municipal bond with the Ministry of Finance as purchaser. In 2023, Ministry of Finance issued structural bonds in the total amount of Denar 275 million intended to settle the arrears, Denar 250.2 million out of which intended for the Municipality of Tetovo, Denar 21.7 million for the Municipality of Zhelino and Denar 2.5 million for the Municipality of Vinica.

7.6 Public Investments

Measures for strengthening public investment management are aimed at improved strategic planning, allocation and implementation of public infrastructure projects by gradually introducing reforms geared towards improved efficiency of public investments management practices. They will contribute for greater alignment of the budget allocations with the investment priorities of the Government, improving the comprehensiveness of budget documentation so as to include all public capital investment spending and information on the financial needs of both the ongoing and the new projects, strengthening the central oversight of public investment portfolio at national level, including the monitoring and the management of the overall delivery risk.

High share of capital expenditures in the total expenditures is crucial for the growth of the domestic economy. If share of capital expenditures to GDP in the past period is analysed, it can be concluded that their share is constantly increasing from 3.3% in 2019 to 5.0% as projected in the 2024 Budget of the Republic of North Macedonia. An exception therefrom, i.e. a slight drop of the share of capital expenditures, was recorded in 2020, when the Macedonian economy, as well as the global economy, faced a health crisis. When analysing the execution of the projected capital expenditures, their constantly high execution can be observed, with the highest execution registered in the 2023 Budget, i.e. accounting for 5.2%, out of 5.4% as projected, in relation to GDP.

Table 27. Capital Expenditures 2019 - 2024

| Year | Projected Capital Investments | Actual Capital Investments | % of Actual Capital Investments | Denar million | |
|---------------------------------|-------------------------------|----------------------------|---------------------------------|---|-------------------------------------|
| | | | | % of Projected Capital Expenditures/GDP | % of Actual Capital Investments/GDP |
| 2019 | 22,709 | 17,813 | 78.4 | 3.3 | 2.6 |
| 2020 | 19,063 | 16,115 | 84.5 | 2.8 | 2.4 |
| 2021 | 29,871 | 23,408 | 78.4 | 4.1 | 3.2 |
| 2022 | 32,109 | 28,637 | 89.2 | 4.0 | 3.6 |
| 2023 | 44,977 | 43,524 | 97 | 5.4 | 5.2 |
| 2024 Supplementary Budget | 44,698 | | | 4.9 | |

Major investments are projected in the road infrastructure, all to the end of planning, design, construction, extension of highway sections along Corridor 8 and Corridor 10d.

As regards the road infrastructure, construction of the eastern part of Road Corridor 8, Rankovce - Kriva Palanka section, as well as construction of the western part of Road Corridor 8, Kichevo – Bukojchani motorway section and Kichevo – Ohrid motorway section, will continue, to be financed with loans. Construction of Skopje - Blace motorway section (border with Kosovo), improvement of road infrastructure of the municipalities in the Republic of North Macedonia through the Local Roads Connectivity Project, the National Roads Programme and the Western Balkans Trade and Transport Facilitation Project are also financed with loans.

As regards the construction of the respective Corridors, special law was adopted in July 2021, regulating the details related to the planning, the design and the construction and the use of part of Corridor 8 and Corridor 10d, as projects of national relevance. Financial resources for the implementation of the projects are provided from the Budget of the Republic of North Macedonia, regardless of whether they are implemented jointly or separately.

Fiscal risk that could arise and have implication on the Budget and the public finances could stem from non-compliance with the provisions of the Agreement with the strategic partner for the construction of the Corridors.

Construction of the Corridors is regulated under a special law, substituting the standard public procurement rules, which the Parliament adopted without prior prepared technical documentation to present the estimated Project value.

Considering the above mentioned, exposure to fiscal risks arises from absence of technical specification at project level, specific method for optimal (uninterrupted) construction not applied so far, resolving the expropriations issues, shortage of human capacities, geomechanical investigation, recent increase of construction costs and unforeseeable project costs.

With the adoption of the new Organic Budget Law in September 2022, Ministry of Finance has been assigned a crucial role as gatekeeper of public finances in the public investment management processes. For the purpose of regulating the procedure for setting medium-term priorities and selecting new initiatives in the form of public investment projects, Draft Decree on Public Investment Management was prepared which, among other things, stipulates the procedure for project preparation and project monitoring. Diligent monitoring and periodic reporting requirements provide information to the Government as regards the progress of the financed projects, promoting thereby transparency, accountability and timely intervention, if needed, so as to ensure successful implementation of the project.

The Government will introduce a risk-based centralised monitoring, which also includes high-level monitoring by the Ministry of Finance for the most of the projects and closer scrutiny of projects with higher delivery risk. When providing funding for the project, the responsibility for its implementation falls on the project implementers. These entities are not only accountable for the project execution, but also for closely monitoring its financial and physical progress throughout the implementation phase. Such dual oversight guarantees that the project stays on track and adheres to both the budget and timeline expectations. In addition to the continuous monitoring, it should be a mandatory requirement for these entities to compile and submit progress reports to the Ministry of Finance. Such reports serve as crucial documentation to monitor the project development and are instrumental in maintaining transparency and accountability.

Risks to infrastructure projects usually materialise as increased project costs or delays during project implementation phase, with the risk factors being determined already in the project preparation and appraisal phase. Therefore, risk assessment will commence even in the project preparation phase, with the project concept, the risks being defined in more details in the feasibility study, which will contribute to undertaking timely and better informed actions to overcome or mitigate them.

Ministry of Finance will prepare progress reports as regards the portfolio of public investment projects, on the basis of data provided by the project implementers, and inform the Government thereof. Moreover, the Government will set special rules on fundamental review of projects deviating from the initial project implementation plan as regards project costs exceeding the initially projected one and implementation delays. Thus, proactive action will be taken as regards project risk management, all to the end of minimizing their fiscal impact.

7.7 Public-Private Partnership

Pursuant to the existing Law on Concessions and Public-Private Partnership, Ministry of Energy, Mining and Minerals is the authority in charge of public-private partnership (PPP). However, its authority in the process of awarding PPP contracts is limited, i.e. it is not included in giving opinions in the stage before and when preparing PPP projects, nor it is included in the oversight and the monitoring of the implementation of the PPP contract. Pursuant to the Law, Ministry of Energy, Mining and Minerals keeps a Registry of concluded PPP contracts. The Registry is kept in paper form and an excel table, containing only data on concluded contracts reported by the public partners on the basis of a stipulated form, without being obliged to submit the contracts themselves. Considering that public partners fail to adhere to the obligation to submit data on a concluded PPP contract, the Registry is partially updated, i.e. it has no complete data available about all concluded contracts and it contains limited financial data submitted by the public partners responsible for their reliability and accuracy. The Registry contains the following financial data, with no details: contracted value (estimated value of the investment), PPP concession fee and transfer of rights in rem and/or payment of fee in currency by the public partner.

In order to overcome the flaws in the existing Law on Concessions and PPP, new Law is in the process of preparation. Ministry of Energy, Mining and Minerals should establish and keep new PPP Registry, which will include all relevant data and information pertaining to technical, economic and financial elements of the PPP contracts, which are necessary for assessing, analysing, monitoring and reporting on the fiscal costs and the risks arising from PPP.

7.8 Legal Claims

Although budget payments related to settlement of court claims against the state were relatively small in the past period, fiscal risks could be substantial considering the large number of active cases. In 2023, budget funds in the amount of around EUR 35 million were paid on this basis, accounting for around 0.6% on average of the budget expenditures in the past five years. As of end-2023 inclusive, there were around 28,000 active cases involving the central government at the State Attorney's Office, also including large court claims. Considerable number of active court cases might be ongoing against the public enterprises and LGUs, which do not fall under the jurisdiction of, and are therefor not recorded in, the State Attorney's Office.

Table 28. Funds Paid by Year

| Year | Denar | EUR |
|------|---------------------|------------------|
| 2019 | Denar 1,704 million | EUR 27.7 million |
| 2020 | Denar 1,022 million | EUR 16.6 million |
| 2021 | Denar 1,442 million | EUR 23.5 million |
| 2022 | Denar 1,313 million | EUR 21.4 million |
| 2023 | Denar 2,172 million | EUR 35.3 million |

Source: Ministry of Finance

Pursuant to paragraph 2, Article 56 of the Organic Budget Law, State Attorney's Office informs the Ministry of Finance continuously of all contingent liabilities on the basis of court cases against the state, all to the end of planning and preparing the Budget.

However, absence of systemic data on court claims against the state makes the process of fiscal risk analysis difficult. State Attorney's Office represents the state in most of the court disputes, however, no centralised database on court cases is put in place, which could generate relevant financial data. Moreover, State Attorney's Office has no information pertaining to lawsuits filed against the municipalities or legal claims filed against state-owned enterprises, nor it has any information on arbitration claims.

To that end, EU is developing a project to support digital transformation of justice, including a case management system for the State Attorney's Office. The system will also be used by the Ministry of Justice and should generate information necessary for monitoring the potential fiscal risks arising from legal claims filed against the state. The system is to be used to identify the cases that could pose a systemic risk, in which case the Government could decide to change the policies or the legal regulations so as to reduce the exposure to fiscal risks in future.

7.9 Environmental Risks

Organic Budget Law prescribes for funds for permanent budget reserve requirement to be provided in the Budget, to be used for eliminating the consequences from natural disasters, state of emergency and/or crisis situation, pandemics, epidemics and environmental disasters. Hence, as regards the funds projected as reserve requirement for eliminating the consequences from state of emergency and natural disasters in 2024, Denar 200 million is projected in the 2024 Budget of the Republic of North Macedonia, Denar 100 million out of which (position Permanent Reserve Requirement) is intended for eliminating the consequences from: natural disasters, epidemics and environmental disasters, and they cannot be reduced with reallocations in the course of the year, but can be increased with reallocations if insufficient. Moreover, Denar 100 million is projected in the position Current Reserves Requirement, intended for unforeseen cases with no funds projected in the Budget or the appropriations being insufficient.

Table 29. Projected and Executed Funds under Permanent Reserve Requirement

| Year | Projected Funds | Executed Funds |
|------|-------------------|---------------------|
| 2019 | Denar 100 million | Denar 20.9 million |
| 2020 | Denar 100 million | Denar 138.3 million |
| 2021 | Denar 100 million | Denar 94.0 million |
| 2022 | Denar 100 million | Denar 268.5 million |
| 2023 | Denar 100 million | Denar 56.7 million |

Source: Ministry of Finance (Budget and Annual Financial Statement, by year)

Natural disasters which the country is exposed to include various types of natural and other disasters, such as floods, wildfires, droughts, earthquakes, landslides, extreme weather phenomena, epidemics caused by infectious diseases in humans and animals, etc. Out of the above-mentioned disasters, according to the international disaster database, floods are the most common phenomenon in the country, accounting for around 50% of the total registered natural disasters, followed by extreme weather conditions (25%), wildfires (12.5%), drought (6.3%) and storms (6.3%).

Fiscal impact of the natural disasters was moderate in the past decade, although climate changes are expected to intensify their severity and increase their frequency. Floods which occurred in Tetovo in 2015 and in Skopje in 2016 caused large economic loss in the past decade. However, it should be noted that COVID-19 induced pandemic is the longest lasting crisis in the country, impacting its socio-economic system and the citizens. The country is also exposed to risks related to climate changes and transition to green energy. Delivering on the government's commitments to mitigating carbon emissions (including a coal phase out by 2030, grid strengthening and new generation capacity) will require significant investment in infrastructure which poses fiscal risks to the government budget directly and indirectly through the performance of energy sector SOEs and the valuation of their infrastructure assets.

8. Expected Results of Medium-Term Projections

As per the fiscal projections, the expectations in the medium run are the following:

- active and accountable fiscal policy in support of economic growth, by adhering to the numeric fiscal rules,
- disciplined budget spending via efficient absorption of the funds and generating improved operational performance by rendering better-quality public services and digitalising public sector services,
- further consolidation, optimisation of public revenues and expenditures by gradual reduction of the budget deficit and public debt, boosted economic activity by executing capital expenditures and making infrastructure investments.
- execution of capital expenditures and implementation of infrastructure projects in the priority areas, in line with the government policies, which will generate positive effects on medium-term economic growth and
- maintenance of macroeconomic stability and fiscal sustainability is to create more favorable conditions for intensifying the economic activity.